QUEST DIAGNOSTICS INC (DGX)

10-Q

Quarterly report pursuant to sections 13 or 15(d)
Filed on 05/10/2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011
Commission file number 001-12215

Quest Diagnostics Incorporated

Three Giralda Farms
Madison, NJ 07940
(973) 520-2700

Delaware
(State of Incorporation)

16-1387862
(I.R.S. Employer Identification Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer☐
Non-accelerated filer☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 30, 2011, there were outstanding 157,348,616 shares of the registrant's common stock, $.01 par value.

PART I - FINANCIAL INFORMATION

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net revenues	$ 1,821,577	$ 1,805,503
Operating costs and expenses:		
Cost of services	1,096,998	1,066,373
Selling, general and administrative	447,858	430,733
Amortization of intangible assets	9,849	9,359
Other operating expense, net	235,912	476
Total operating costs and expenses	1,790,617	1,506,941
Operating income	30,960	298,562
Other income (expense):		
Interest expense, net	(37,929)	(35,955)
Equity earnings in unconsolidated joint ventures	7,699	7,964
Other income, net	2,208	6,012
Total non-operating expenses, net	(28,022)	(21,979)
Income from continuing operations before taxes	2,938	276,583
Income tax expense	49,226	105,378
Income (loss) from continuing operations	(46,288)	171,205
Loss from discontinued operations, net of taxes	(374)	(52)
Net income (loss)	(46,662)	171,153
Less: Net income attributable to noncontrolling interests	7,199	8,705
Net income (loss) attributable to Quest Diagnostics	$ (53,861)	$ 162,448
Amounts attributable to Quest Diagnostics' stockholders:		
Income (loss) from continuing operations	$ (53,487)	$ 162,500
Loss from discontinued operations, net of taxes	(374)	(52)
Net income (loss)	$ (53,861)	$ 162,448
Earnings (loss) per share attributable to Quest Diagnostics' common stockholders - basic:		
Income (loss) from continuing operations	$ (0.33)	$ 0.90
Loss from discontinued operations	—	—
Net income (loss)	$ (0.33)	$ 0.90
Earnings (loss) per share attributable to Quest Diagnostics' common stockholders - diluted:		
Income (loss) from continuing operations	$ (0.33)	$ 0.89
Loss from discontinued operations	—	—
Net income (loss)	$ (0.33)	$ 0.89
Weighted average common shares outstanding:		
Basic	161,489	180,219
Diluted	161,489	182,383
Dividends per common share	$ 0.10	$ 0.10

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2011 AND DECEMBER 31, 2010
(in thousands, except per share data)

	March 31, 2011	December 31, 2010
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 994,242	$ 449,301
Accounts receivable, net of allowance for doubtful accounts of $236,886 and $228,917 at March 31, 2011 and December 31, 2010, respectively	940,358	845,299
Inventories	71,741	76,572
Deferred income taxes	182,255	142,470
Prepaid expenses and other current assets	111,389	91,775
Total current assets	2,299,985	1,605,417
Property, plant and equipment, net	821,526	834,376
Goodwill	5,118,908	5,101,938
Intangible assets, net	795,378	796,405
Other assets	188,932	189,494
Total assets	$ 9,224,729	$ 8,527,630
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,137,326	$ 865,272
Current portion of long-term debt	629,238	348,996
Total current liabilities	1,766,564	1,214,268
Long-term debt	3,594,643	2,641,160
Other liabilities	625,518	618,077
Stockholders' equity:		
Quest Diagnostics stockholders' equity:		
Common stock, par value $0.01 per share; 600,000 shares authorized at both March 31, 2011 and December 31, 2010; 214,580 shares and 214,173 shares issued at March 31, 2011 and December 31, 2010, respectively	2,146	2,142
Additional paid-in capital	2,305,827	2,311,421
Retained earnings	3,797,796	3,867,420
Accumulated other comprehensive income	32,209	10,626
Treasury stock, at cost; 57,451 shares and 43,456 shares at March 31, 2011 and December 31, 2010, respectively	(2,923,388)	(2,158,129)
Total Quest Diagnostics stockholders' equity	3,214,590	4,033,480
Noncontrolling interests	23,414	20,645
Total stockholders' equity	3,238,004	4,054,125
Total liabilities and stockholders' equity	$ 9,224,729	$ 8,527,630

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(unaudited)
(in thousands)

	Three Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities:		
Net income (loss)	$ (46,662)	$ 171,153
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	63,365	63,333
Provision for doubtful accounts	77,376	76,279
Deferred income tax (benefit) provision	(38,766)	3,563
Stock-based compensation expense	18,945	11,127
Excess tax benefits from stock-based compensation arrangements	(4,680)	473
Provision for special charge	236,000	—
Other, net	3,474	8,708
Changes in operating assets and liabilities:		
Accounts receivable	(171,275)	(115,287)
Accounts payable and accrued expenses	(47,126)	(81,935)
Income taxes payable	78,676	98,413
Other assets and liabilities, net	(8,747)	3,388
Net cash provided by operating activities	160,580	239,215
Cash flows from investing activities:		
Capital expenditures	(38,991)	(39,763)
Increase in investments and other assets	(1,762)	(2,831)
Net cash used in investing activities	(40,753)	(42,594)
Cash flows from financing activities:		
Proceeds from borrowings	1,818,329	—
Repayments of debt	(576,891)	(699)
Purchases of treasury stock	(835,001)	(250,712)
Exercise of stock options	53,788	19,739
Excess tax benefits from stock-based compensation arrangements	4,680	(473)
Dividends paid	(17,136)	(18,372)
Distributions to noncontrolling interests	(5,268)	(5,489)
Other financing activities	(17,387)	(11,632)
Net cash provided by (used in) financing activities	425,114	(267,638)
Net change in cash and cash equivalents	544,941	(71,017)
Cash and cash equivalents, beginning of period	449,301	534,256
Cash and cash equivalents, end of period	$ 994,242	$ 463,239

The accompanying notes are an integral part of these statements.

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(unaudited)
(in thousands)

		Quest Diagnostics Stockholders' Equity							
	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Income	Treasury Stock, at Cost	Compre-hensive Loss	Non-controlling Interests	Total Stock-holders' Equity
Balance, December 31, 2010	170,717	$ 2,142	$2,311,421	$3,867,420	$ 10,626	$(2,158,129)		$ 20,645	$ 4,054,125
Net income (loss)				(53,861)			$ (53,861)	7,199	(46,662)
Currency translation					24,504		24,504		24,504
Market valuation, net of tax benefit of $799					(1,250)		(1,250)		(1,250)
Net deferred loss on cash flow hedges					(1,671)		(1,671)		(1,671)
Comprehensive loss							$ (32,278)		
Dividends declared				(15,763)					(15,763)
Distributions to noncontrolling interests								(5,268)	(5,268)
Issuance of common stock under benefit plans	839	7	562			4,098			4,667
Stock-based compensation expense			18,121			824			18,945
Exercise of stock options	1,285		(11,032)			64,820			53,788
Shares to cover employee payroll tax withholdings on stock issued under benefit plans	(334)	(3)	(19,010)						(19,013)
Tax benefits associated with stock-based compensation plans			5,765						5,765
Purchases of treasury stock	(15,378)					(835,001)			(835,001)
Other								838	838
Balance, March 31, 2011	157,129	$ 2,146	$2,305,827	$3,797,796	$ 32,209	$(2,923,388)		$ 23,414	$ 3,238,004

		Quest Diagnostics Stockholders' Equity							
	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Loss	Treasury Stock, at Cost	Compre-hensive Income	Non-controlling Interests	Total Stock-holders' Equity
Balance, December 31, 2009	183,293	$ 2,141	$2,302,368	$3,216,639	$ (20,961)	$(1,510,548)		$ 21,825	$ 4,011,464
Net income				162,448			$162,448	8,705	171,153
Currency translation					(1,854)		(1,854)		(1,854)
Net deferred loss on cash flow hedges					181		181		181
Comprehensive income							$160,775		
Dividends declared				(18,058)					(18,058)
Distributions to noncontrolling interests								(5,489)	(5,489)
Issuance of common stock under benefit plans	747	2	(25,090)			29,773			4,685
Stock-based compensation expense			10,296			831			11,127
Exercise of stock options	553		(7,863)			27,602			19,739
Shares to cover employee payroll tax withholdings on stock issued under benefit plans	(267)	(1)	(5,280)			(9,615)			(14,896)
Tax benefits associated with stock-based compensation plans			1,875						1,875
Purchase of treasury stock	(4,460)					(250,712)			(250,712)
Balance, March 31, 2010	179,866	$ 2,142	$2,276,306	$3,361,029	$ (22,634)	$(1,712,669)		$ 25,041	$ 3,929,215

The accompanying notes are an integral part of these statements.

1. DESCRIPTION OF BUSINESS

Background

Quest Diagnostics Incorporated and its subsidiaries ("Quest Diagnostics" or the "Company") is the world's leading provider of diagnostic testing, information and services, providing insights that enable patients, physicians and others to make better healthcare decisions. Quest Diagnostics offers patients and physicians the broadest access to diagnostic laboratory services through the Company's nationwide network of laboratories and patient service centers. The Company provides interpretive consultation through the largest medical and scientific staff in the industry, with approximately 900 M.D.s and Ph.D.s, primarily located in the United States. Quest Diagnostics is the leading provider of clinical testing, including gene-based and esoteric testing, anatomic pathology services and testing for drugs-of-abuse in the United States, and the leading provider of risk assessment services for the life insurance industry in North America. The Company is also a leading provider of testing for clinical trials. The Company's diagnostics products business manufactures and markets diagnostic test kits and specialized point-of-care testing. Quest Diagnostics empowers healthcare organizations and clinicians with robust information technology solutions that can improve patient care and medical practice.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The interim consolidated financial statements reflect all adjustments which in the opinion of management are necessary for a fair statement of financial condition, results of operations, and cash flows for the periods presented. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. The interim consolidated financial statements have been compiled without audit. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's 2010 Annual Report on Form 10-K.

The year-end balance sheet data was derived from the audited financial statements as of December 31, 2010, but does not include all the disclosures required by accounting principles generally accepted in the United States ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Earnings Per Share

The Company's unvested restricted common stock and unvested restricted stock units that contain non-forfeitable rights to dividends are participating securities and, therefore, are included in the earnings allocation in computing earnings per share using the two-class method. Basic earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of common shares outstanding. Diluted earnings per common share is calculated by dividing net income, adjusted for earnings allocated to participating securities, by the weighted average number of common shares outstanding after giving effect to all potentially dilutive common shares outstanding during the period. In calculating losses on a fully diluted per share basis, certain potentially dilutive securities, which would otherwise reduce the loss per share, are excluded from the calculation. Potentially dilutive common shares include the dilutive effect of outstanding stock options and performance share units granted under the Company's Amended and Restated Employee Long-Term Incentive Plan ("ELTIP") and its Amended and Restated Non-Employee Director Long-Term Incentive Plan ("DLTIP"). Earnings allocable to participating securities include the portion of dividends declared as well as the portion of undistributed earnings during the period allocable to participating securities.

Cash and Cash Equivalents

Cash and cash equivalents include all highly-liquid investments with original maturities, at the time acquired by the Company, of three months or less. At March 31, 2011, cash and cash equivalents included $750 million of cash which was used to fund the Company's acquisition of Athena Diagnostics on April 4, 2011 (see Note 14 for further details).

Adoption of New Accounting Standards

On January 1, 2011, the Company adopted revised guidance issued by the Financial Accounting Standards Board ("FASB") related to the accounting for revenue in certain revenue arrangements that include software elements and in arrangements with multiple deliverables. The adoption of these standards did not have a material impact on the Company's consolidated financial statements.

On January 1, 2011, the Company adopted a new accounting standard related to the disclosures about the Company's use of fair value measurements relating to the tabular reconciliation of beginning and ending balances of the Level 3 (fair value determined based on significant unobservable inputs) classification and that provides greater disaggregation for each class of assets and liabilities that use fair value measurements. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On January 1, 2011, the Company adopted a new accounting standard related to the accounting for insurance claims and related insurance recoveries. This standard clarifies that a healthcare entity may not net insurance recoveries against related professional claim liabilities in its balance sheet and also requires that claim liabilities shall be determined without consideration of insurance recoveries. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On January 1, 2011, the Company adopted a new accounting standard pertaining to disclosures of charity care provided by healthcare entities. Under this new standard, the measurement basis for charity care disclosures is the cost of performing the services. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On January 1, 2011, the Company adopted a new accounting standard related to goodwill which (1) modifies step one of the goodwill impairment test by requiring entities with reporting units that have a zero or negative carrying value to assess whether it is more likely than not that a goodwill impairment exists and (2) does not prescribe a specific method of calculating the carrying value of a reporting unit in the performance of step one of the goodwill impairment test. Under the requirements of this standard, if the entity concludes that it is more likely than not that an impairment of goodwill exists, the entity must perform step two of the goodwill impairment test. In determining whether it is more likely than not that an impairment of goodwill exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment exists. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

3. EARNINGS (LOSS) PER SHARE

The computation of basic and diluted earnings (loss) per common share was as follows (in thousands, except per share data):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Amounts attributable to Quest Diagnostics' stockholders:		
Income (loss) from continuing operations	$ (53,487)	$ 162,500
Loss from discontinued operations	(374)	(52)
Net income (loss) attributable to Quest Diagnostics' common stockholders	$ (53,861)	$ 162,448
Income (loss) from continuing operations	$ (53,487)	$ 162,500
Less: Earnings allocated to participating securities	90	660
Earnings (loss) available to Quest Diagnostics' common stockholders – basic and diluted	$ (53,577)	$ 161,840
Weighted average common shares outstanding – basic	161,489	180,219
Effect of dilutive securities:		
Stock options and performance share units	—	2,164
Weighted average common shares outstanding – diluted	161,489	182,383
Earnings (loss) per share attributable to Quest Diagnostics' common stockholders – basic:		
Income (loss) from continuing operations	$ (0.33)	$ 0.90
Loss from discontinued operations	—	—
Net income (loss)	$ (0.33)	$ 0.90
Earnings (loss) per share attributable to Quest Diagnostics' common stockholders - diluted:		
Income (loss) from continuing operations	$ (0.33)	$ 0.89
Loss from discontinued operations	—	—
Net income (loss)	$ (0.33)	$ 0.89

Stock options and performance share units of 3.7 million shares and 2.7 million shares for the three months ended March 31, 2011 and March 31, 2010, respectively, were not included due to their antidilutive effect.

(dollars in thousands unless otherwise indicated)

4. FAIR VALUE MEASUREMENTS

The following table provides a summary of the recognized assets and liabilities that are measured at fair value on a recurring basis:

		Basis of Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets / Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
March 31, 2011				
Assets:				
Trading securities	$ 39,452	$ 39,452	$ —	$ —
Interest rate swaps	3,277	—	3,277	—
Cash surrender value of life insurance policies	21,011	—	21,011	—
Available-for-sale equity securities	3,017	—	—	3,017
Foreign currency forward contracts	6,933	—	6,933	—
Total	$ 73,690	$ 39,452	$ 31,221	$ 3,017
Liabilities:				
Deferred compensation liabilities	$ 63,917	$ —	$ 63,917	$ —
Interest rate swaps	2,651	—	2,651	—
Foreign currency forward contracts	158	—	158	—
Total	$ 66,726	$ —	$ 66,726	$ —

		Basis of Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets / Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
December 31, 2010				
Assets:				
Trading securities	$ 38,740	$ 38,740	$ —	$ —
Cash surrender value of life insurance policies	20,314	—	20,314	—
Interest rate swaps	10,483	—	10,483	—
Available-for-sale equity securities	5,066	—	—	5,066
Foreign currency forward contracts	4,527	—	4,527	—
Total	$ 79,130	$ 38,740	$ 35,324	$ 5,066
Liabilities:				
Deferred compensation liabilities	$ 61,964	$ —	$ 61,964	$ —
Foreign currency forward contracts	464	—	464	—
Total	$ 62,428	$ —	$ 62,428	$ —

The Company offers certain employees the opportunity to participate in a supplemental deferred compensation plan. A participant's deferrals, together with Company matching credits, are invested in a variety of participant-directed stock and bond mutual funds that are classified as trading securities. Changes in the fair value of these securities are measured using quoted prices in active markets based on the market price per unit multiplied by the number of units held exclusive of any transaction costs. A corresponding adjustment for changes in fair value of the trading securities is also reflected in the changes in fair value of the deferred compensation obligation. The deferred compensation liabilities are classified within Level 2 because their inputs are derived principally from observable market data by correlation to the trading securities.

(dollars in thousands unless otherwise indicated)

The Company offers certain employees the opportunity to participate in a non-qualified deferred compensation program. A participant's deferrals, together with Company matching credits, are "invested" at the direction of the employee in a hypothetical portfolio of investments which are tracked by an administrator. The Company purchases life insurance policies, with the Company named as beneficiary of the policies, for the purpose of funding the program's liability. Changes in the cash surrender value of the life insurance policies are based upon earnings and changes in the value of the underlying investments. Changes in the fair value of the deferred compensation obligation are derived using quoted prices in active markets based on the market price per unit multiplied by the number of units. The cash surrender value and the deferred compensation obligations are classified within Level 2 because their inputs are derived principally from observable market data by correlation to the hypothetical investments.

The fair value measurements of foreign currency forward contracts are obtained from a third-party pricing service and are based on market prices in actual transactions and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The fair value measurements of the Company's interest rate swaps are model-derived valuations as of a given date in which all significant inputs are observable in active markets including certain financial information and certain assumptions regarding past, present and future market conditions. The Company does not believe that the changes in the fair values of its foreign currency forward contracts and interest rate swaps will materially differ from the amounts that could be realized upon settlement or maturity or that the changes in fair value will have a material effect on its results of operations, liquidity and capital resources.

Investments in available-for-sale equity securities consist of the revaluation of an existing investment in unregistered common shares of a publicly-held company. This investment is classified within Level 3 because the unregistered securities contain restrictions on their sale, and therefore, the fair value measurement reflects a discount for the effect of the restriction.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate fair value based on the short maturities of these instruments. At March 31, 2011 and December 31, 2010, the fair value of the Company's debt was estimated at $4.4 billion and $3.1 billion, respectively, using quoted market prices and yields for the same or similar types of borrowings, taking into account the underlying terms of the debt instruments. At March 31, 2011 and December 31, 2010, the estimated fair value exceeded the carrying value of the debt by $126 million and $80 million, respectively.

5. TAXES ON INCOME

Income tax expense for the three months ended March 31, 2011 and 2010 was $49.2 million and $105.4 million, respectively. The increase in the effective income tax rate for the three months ended March 31, 2011 is primarily due to a charge recorded in the first quarter of 2011 associated with an agreement in principle to resolve certain legal claims (see Note 11), a portion for which a tax benefit has not been recorded.

6. GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill for the three months ended March 31, 2011 and for the year ended December 31, 2010 are as follows:

	March 31, 2011	December 31, 2010
Balance at beginning of period	$ 5,101,938	$ 5,083,944
Goodwill acquired during the year	—	—
Other purchase accounting adjustments	—	246
Increase related to foreign currency translation	16,970	17,748
Balance at end of period	$ 5,118,908	$ 5,101,938

Approximately 90% of the Company's goodwill as of March 31, 2011 and December 31, 2010 was associated with its clinical testing business.

(dollars in thousands unless otherwise indicated)

For the year ended December 31, 2010, other purchase accounting adjustments were primarily related to a milestone payment on an acquisition from 2008.

Intangible assets at March 31, 2011 and December 31, 2010 consisted of the following:

	Weighted Average Amortization Period	March 31, 2011			December 31, 2010		
		Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizing intangible assets:							
Customer-related intangibles	19 years	$ 605,590	$ (169,558)	$ 436,032	$ 603,203	$ (161,345)	$ 441,858
Non-compete agreements	5 years	54,894	(52,607)	2,287	54,886	(52,134)	2,752
Other	11 years	80,139	(28,583)	51,556	75,895	(26,176)	49,719
Total	18 years	740,623	(250,748)	489,875	733,984	(239,655)	494,329
Intangible assets not subject to amortization:							
Tradenames		305,503	—	305,503	302,076	—	302,076
Total intangible assets		$ 1,046,126	$ (250,748)	$ 795,378	$ 1,036,060	$ (239,655)	$ 796,405

Amortization expense related to intangible assets was $9.8 million and $9.4 million for the three months ended March 31, 2011 and 2010, respectively.

The estimated amortization expense related to amortizable intangible assets for each of the five succeeding fiscal years and thereafter as of March 31, 2011 is as follows:

Fiscal Year Ending December 31,	
Remainder of 2011	$ 29,786
2012	39,618
2013	40,214
2014	38,474
2015	34,937
2016	33,404
Thereafter	273,442
Total	$ 489,875

(dollars in thousands unless otherwise indicated)

7. DEBT

Long-term debt at March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011	December 31, 2010
Senior Notes due July 2011	$ 159,250	$ 159,234
Term Loan due May 2012	742,000	742,000
Floating Rate Senior Notes due March 2014	200,000	—
Senior Notes due November 2015	499,267	499,227
Senior Notes due April 2016	297,071	—
Senior Notes due July 2017	374,501	374,480
Senior Notes due January 2020	496,749	503,770
Senior Notes due April 2021	549,083	—
Senior Notes due July 2037	420,879	420,840
Senior Notes due January 2040	438,009	243,422
Other	47,072	47,183
Total long-term debt	4,223,881	2,990,156
Less: current portion of long-term debt	629,238	348,996
Total long-term debt, net of current portion	$ 3,594,643	$ 2,641,160

2011 Senior Notes Offering

On March 24, 2011, the Company completed a $1.25 billion senior notes offering (the "2011 Senior Notes"). The 2011 Senior Notes were sold in four tranches: (a) $200 million aggregate principal amount of three-month LIBOR plus 0.85% floating rate senior notes due March 24, 2014 (the "Floating Rate Senior Notes due 2014"), issued at par, (b) $300 million aggregate principal amount of 3.20% senior notes due April 1, 2016 (the "Senior Notes due 2016"), issued at a discount of $0.3 million, (c) $550 million aggregate principal amount of 4.70% senior notes due April 1, 2021 (the "Senior Notes due 2021"), issued at a discount of $0.9 million and (d) $200 million aggregate principal amount of 5.75% senior notes due January 30, 2040 (the "Senior Notes due 2040"), issued at a discount of $5.5 million. The Senior Notes due 2040 are a reopening of the $250 million aggregate principal amount of 5.75% Senior Notes due 2040 issued on November 17, 2009. After considering the discounts, the effective interest rates on the Senior Notes due 2016, the Senior Notes due 2021 and the Senior Notes due 2040 are 3.22%, 4.72% and 5.95%, respectively. The Floating Rate Senior Notes due 2014 require quarterly interest payments, which commence on June 24, 2011. The Senior Notes due 2016 and the Senior Notes due 2021 require semi-annual interest payments, which commence on October 1, 2011. The Senior Notes due 2040 require semi-annual interest payments, which commence on July 30, 2011. The 2011 Senior Notes are unsecured obligations of the Company and rank equally with the Company's other unsecured obligations. The 2011 Senior Notes do not have a sinking fund requirement and are guaranteed by certain of the Company's domestic, wholly-owned subsidiaries (the "Subsidiary Guarantors").

The Company incurred $10.4 million of costs associated with the 2011 Senior Notes, which is being amortized over the term of the related debt.

The Company used $750 million of the net proceeds from the 2011 Senior Notes to fund the purchase price and related transaction costs associated with its acquisition of Athena Diagnostics, which closed on April 4, 2011 (See Note 14), and $485 million of the net proceeds, together with $90 million of cash on hand, to repay outstanding indebtedness under the Company's senior unsecured revolving credit facility and its secured receivables credit facility.

As further discussed in Note 8, the Company has hedged its interest rate exposure on a portion of the Senior Notes due 2016 and on a portion of the Senior Notes due 2020 which have been designated as fair value hedges. The carrying value of the Senior Notes due 2016 has been decreased by the fair value of the related hedge of $2.7 million in the consolidated balance sheet as of March 31, 2011. At March 31, 2011 and December 31, 2010, the carrying value of the Senior Notes due 2020 has been increased by the fair value of the related hedge of $3.3 million and $10.5 million, respectively.

(dollars in thousands unless otherwise indicated)

As of March 31, 2011, long-term debt matures as follows:

Fiscal Year ending December 31,	
Remainder of 2011	$ 347,269
2012	567,801
2013	7,397
2014	206,986
2015	504,425
2016	300,565
Thereafter	2,313,900
Total maturities of debt	4,248,343
Unamortized discount	(25,087)
Fair value basis adjustment attributable to hedged debt	625
Total debt	4,223,881
Current portion of long-term debt	(629,238)
Total long-term debt, net of current portion	$ 3,594,643

A full description of the terms of the Company's indebtedness and related service requirements is contained in Note 10 to the Consolidated Financial Statements in the Company's 2010 Annual Report on Form 10-K.

8. FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to market risks for changes in interest rates and foreign currencies. This strategy includes the use of interest rate swap agreements, forward starting interest rate swap agreements, treasury lock agreements and foreign currency forward contracts to manage its exposure to movements in interest and currency rates. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. These policies prohibit holding or issuing derivative financial instruments for speculative or trading purposes. The Company does not enter into derivative financial instruments that contain credit-risk-related contingent features or requirements to post collateral.

(dollars in thousands unless otherwise indicated)

A summary of the fair values of derivative instruments in the consolidated balance sheets is stated in the table below:

	March 31, 2011		December 31, 2010	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Derivatives Designated as Hedging Instruments				
Asset Derivatives:				
Interest rate swaps	Other assets	$ 3,277	Other assets	$ 10,483
Liability Derivatives:				
Interest rate swaps	Other liabilities	$ 2,651	Other liabilities	$ —
Derivatives Not Designated as Hedging Instruments				
Asset Derivatives:				
Foreign currency forward contracts	Other current assets	$ 6,933	Other current assets	$ 4,527
Liability Derivatives:				
Foreign currency forward contracts	Other current liabilities	$ 158	Other current liabilities	$ 464
Total Net Derivatives Asset		$ 7,401		$ 14,546
Total Net Derivatives Liability		$ —		$ —

Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents and its debt obligations. Interest income earned on cash and cash equivalents may fluctuate as interest rates change; however, due to their relatively short maturities, the Company does not hedge these assets or their investment cash flows and the impact of interest rate risk is not material. The Company's debt obligations consist of fixed-rate and variable-rate debt instruments. The Company's primary objective is to achieve the lowest overall cost of funding while managing the variability in cash outflows within an acceptable range. In order to achieve this objective, the Company has entered into interest rate swaps. Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net settlements between the counterparties are recognized as an adjustment to interest expense.

The Company formally documents its hedge relationships, including identifying the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. On the date the derivative is entered into, the Company designates the type of derivative as a fair value hedge or cash flow hedge, and accounts for the derivative in accordance with its designation as prescribed by the standards on accounting for derivative instruments and hedging activities. At inception and at least quarterly thereafter, the Company formally assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value or cash flows of the hedged item. All components of each derivative financial instrument's gain or loss are included in the assessment of hedge effectiveness.

The Company accounts for its derivatives as either an asset or liability measured at its fair value. The fair value is based upon quoted market prices obtained from third-party financial institutions and includes an adjustment for the credit risk of the obligor's non-performance. For a derivative instrument that has been formally designated as a fair value hedge, fair value gains or losses on the derivative instrument are reported in earnings, together with offsetting fair value gains or losses on the hedged item that are attributable to the risk being hedged. For derivatives that have been formally designated as a cash flow hedge, the effective portion of changes in the fair value of the derivatives is recorded in accumulated other comprehensive income and the ineffective portion is recorded in earnings. Upon maturity or early termination of an effective interest rate swap designated as a cash flow hedge, unrealized gains or losses are deferred in stockholders' equity, as a component of accumulated other comprehensive income, and are amortized as an adjustment to interest expense over the period during which the hedged forecasted transaction affects earnings. If it is determined that a derivative ceases to be a highly effective hedge, the Company discontinues hedge accounting and any deferred gains or losses related to a discontinued cash flow hedge shall continue to be reported in accumulated other comprehensive income, unless it is probable that the forecasted transaction will not occur. If it is probable that the forecasted transaction will not occur by the originally specified time period, the Company discontinues hedge accounting, and any deferred gains or losses reported in accumulated other comprehensive income are classified into earnings immediately.

Interest Rate Derivatives – Cash Flow Hedges

In March 2011, the Company entered into interest rate lock agreements with several financial institutions for a total notional amount of $400 million (the "Treasury Lock Agreements"). The Treasury Lock Agreements, which had an original maturity date of April 5, 2011, were entered into to hedge part of the Company's interest rate exposure associated with the variability in future cash flows attributable to changes in the 10-year and 30-year U.S. treasury rates related to the planned issuance of debt securities. In connection with the Company's senior notes offering in March 2011 (see Note 7), the Company paid $3.1 million to settle the Treasury Lock Agreements which have been accounted for as cash flow hedges. These losses are deferred in stockholders' equity, as a component of accumulated other comprehensive income, and are amortized as an adjustment to interest expense over the term of the Senior Notes due 2021 and Senior Notes due 2040.

In previous years, the Company entered into various forward starting interest rate swap agreements and treasury-lock agreements that were accounted for as cash flow hedges (see Note 11 to the Consolidated Financial Statements in the Company's 2010 Annual Report on Form 10-K for further details). The effective portions of the changes in fair value of these derivatives represent deferred gains or losses that are recorded in accumulated other comprehensive income. These deferred gains or losses are reclassified from accumulated other comprehensive income to the statement of operations in the same period or periods during which the hedged transaction affects earnings, which is when the Company recognizes interest expense on the hedged cash flows. The total loss, net of tax benefit, recognized in accumulated other comprehensive income on the cash flow hedges as of March 31, 2011 and December 31, 2010 was $8.3 million and $6.6 million, respectively. The loss recognized on the Company's cash flow hedges for the three months ended March 31, 2011 and 2010, as a result of ineffectiveness, was not material. The net amount of deferred losses on cash flow hedges that is expected to be reclassified from accumulated other comprehensive income into earnings within the next 12 months is $1.3 million.

Interest Rate Derivatives – Fair Value Hedges

In March 2011, the Company entered into various fixed-to-variable interest rate swap agreements (the "2011 Fixed-to-Variable Interest Rate Swap Agreements") which have an aggregate notional amount of $200 million and a variable interest rate based on six-month LIBOR plus 0.54%.

In November 2009, the Company entered into various fixed-to-variable interest rate swap agreements (the "2009 Fixed-to-Variable Interest Rate Swap Agreements") which have an aggregate notional amount of $350 million and a variable interest rate based on one-month LIBOR plus 1.33%.

These derivative financial instruments are accounted for as fair value hedges of a portion of the Senior Notes due 2016 and a portion of the Senior Notes due 2020 and effectively convert that portion of the debt into variable interest rate debt. The Company recognizes the changes in the fair value of both the fixed-to-variable interest rate swap agreements and the related underlying debt obligations in other income, net as equal and offsetting gains and losses. The fair value of the 2011 Fixed-to-Variable Interest Rate Swap Agreements was a liability of $2.7 million at March 31, 2011. At March 31, 2011 and December 31, 2010, the fair value of the 2009 Fixed-to-Variable Interest Rate Swap Agreements was an asset of $3.3 million and $10.5 million, respectively. Since inception, the fair value hedges have been effective; therefore, there is no impact on earnings for the three months ended March 31, 2011 and 2010 as a result of hedge ineffectiveness.

Foreign Currency Risk

The Company is exposed to market risk for changes in foreign exchange rates primarily under certain intercompany receivables and payables. Foreign exchange forward contracts are used to mitigate the exposure of the eventual net cash inflows or outflows resulting from these intercompany transactions. The objective is to hedge a portion of the forecasted foreign currency risk over a rolling 12-month time horizon to mitigate the eventual impacts of changes in foreign exchange rates on the cash flows of the intercompany transactions. As of March 31, 2011, the gross notional amount of foreign currency forward contracts in U.S. dollars was $61.0 million and principally consists of contracts in Swedish krona and British pounds. The Company does not designate these derivative instruments as hedges under current accounting standards unless the benefits of doing so are material. The Company's foreign exchange exposure is not material to the Company's consolidated financial condition or results of operations. The Company does not hedge its net investment in non-U.S. subsidiaries because it views those investments as long-term in nature.

9. STOCKHOLDERS' EQUITY

Components of Comprehensive Income (Loss)

The market valuation adjustment for the three months ended March 31, 2011 represents unrealized holding losses on available-for-sale securities, net of taxes. The net deferred loss on cash flow hedges for the three months ended March 31, 2011 and 2010 represents deferred losses on the Company's interest rate related derivative financial instruments designated as cash flow hedges, net of amounts reclassified to interest expense (see Note 8). Foreign currency translation adjustments are not adjusted for income taxes since they relate to indefinite investments in non-U.S. subsidiaries.

Dividend Program

During each of the quarters of 2011 and 2010, the Company's Board of Directors has declared a quarterly cash dividend of $0.10 per common share.

Share Repurchase Plan

In January 2011, the Company's Board of Directors authorized the Company to repurchase an additional $750 million of the Company's common stock, increasing the total available authorization at that time to $1 billion. The share repurchase authorization has no set expiration or termination date.

For the three months ended March 31, 2011, the Company repurchased 15.4 million shares of its common stock from SB Holdings Capital Inc., a wholly-owned subsidiary of GlaxoSmithKline plc., at an average price of $54.30 per share for a total of $835 million. For the three months ended March 31, 2011, the Company reissued 1.4 million shares for employee benefit plans. At March 31, 2011, $165 million remained available under the Company's share repurchase authorizations.

In January 2010, the Company executed an accelerated share repurchase transaction with a bank to repurchase 4.5 million shares of the Company's outstanding common stock for an initial purchase price of $56.05 per share. The purchase price of these shares was subject to an adjustment based on the volume weighted average price of the Company's common stock during a period following execution of the agreement. The total cost of the initial purchase was $250 million. The purchase price adjustment was settled in the first quarter of 2010 and resulted in an additional cash payment of $0.7 million, for a final purchase price of $251 million, or $56.21 per share. For the three months ended March 31, 2010, the Company reissued 1.0 million shares for employee benefit plans.

(dollars in thousands unless otherwise indicated)

10. SUPPLEMENTAL CASH FLOW & OTHER DATA

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Depreciation expense	$ 53,516	$ 53,974
Interest expense	(38,280)	(36,530)
Interest income	351	575
Interest expense, net	(37,929)	(35,955)
Interest paid	55,044	35,312
Income taxes paid	10,602	6,829
Assets acquired under capital leases	821	—

11. COMMITMENTS AND CONTINGENCIES

The Company has a line of credit with a financial institution totaling $85 million for the issuance of letters of credit (the "Letter of Credit Line"). The Letter of Credit Line, which is renewed annually, matures on November 19, 2011 and is guaranteed by the Subsidiary Guarantors.

In support of its risk management program, to ensure the Company's performance or payment to third parties, $63 million in letters of credit were outstanding at March 31, 2011. The letters of credit primarily represent collateral for current and future automobile liability and workers' compensation loss payments. In addition, $7 million of bank guarantees were outstanding at March 31, 2011 in support of certain foreign operations.

Contingent Lease Obligations

The Company is subject to contingent obligations under certain leases and other instruments incurred in connection with real estate activities and other operations associated with LabOne, Inc., which the Company acquired in 2005, and certain of its predecessor companies. No liability has been recorded for any of these potential contingent obligations. See Note 15 to the Consolidated Financial Statements contained in the Company's 2010 Annual Report on Form 10-K for further details.

Legal Matters

The Company is involved in various legal proceedings. Some of the proceedings against the Company involve claims that are substantial in amount.

In 2006 and 2008, the Company and several of its subsidiaries received subpoenas from the California Attorney General's Office (the "Attorney General") seeking documents relating to the Company's billings to Medi-Cal, the California Medicaid program. The Company cooperated with the government's requests. Subsequently, the State of California intervened as plaintiff in a civil lawsuit, California ex rel. Hunter Laboratories, LLC v. Quest Diagnostics Incorporated., et al. (the "California Lawsuit"), filed in California Superior Court against a number of clinical laboratories, including the Company and several of its subsidiaries. The complaint was originally filed by a competitor laboratory in California under the whistleblower provisions of the California False Claims Act. The complaint was unsealed on March 20, 2009.

The plaintiffs allege, among other things, that the Company overcharged Medi-Cal for testing services and violated the California False Claims Act. Specifically, the plaintiffs allege, among other things, that the Company violated certain regulations that govern billing to Medi-Cal ("Comparable Charge" regulations). A liability finding could lead to an injunction, fines or penalties, and exclusion from Medi-Cal, as well as claims by third parties.

In the third quarter of 2010, the California Department of Health Care Services (the "Department") conducted an audit of the Company's billing to Medi-Cal. The Department contended that the Company's billings were not consistent with applicable California regulations, as then interpreted by the Department. While the Company believes it is in compliance in all material respects with California requirements applicable to billing for clinical laboratory testing, the Company entered into an interim agreement under which it agreed to temporarily suspend billing Medi-Cal for a period of up to six months through March 1, 2011, during which it continued to provide services. The agreement was subsequently extended to May 16, 2011. The Company has continued to recognize revenue from Medi-Cal for services provided in accordance with its interpretation of California regulations related to billing for clinical laboratory testing.

The Company engaged in discussions in an attempt to resolve the matters described above. Agreement with both the Attorney General and the Department was required to settle this matter. During the fourth quarter of 2010, the Company reached an understanding, which was highly conditioned, to settle these matters pursuant to which the Company would pay $241 million. Conditions included, but were not limited to, reaching an agreement regarding the manner in which the Company's future billings would be treated by the Department. In subsequent discussions during the fourth quarter of 2010, the Attorney General and the Department rejected the Company's proposals that would have addressed these outstanding issues. As a result, as of the issuance of the Company's financial statements for 2010, settlement discussions had reached an impasse. Based on these facts and circumstances, the Company concluded that a liability was not probable as of December 31, 2010.

In the first quarter of 2011, settlement discussions resumed. On May 9, 2011, the Company announced an agreement in principle to resolve these matters. While denying liability, in order to avoid the uncertainty, expense and risks of litigation, the Company agreed to resolve these matters for $241 million. The Company is paying this amount to resolve the Comparable Charge allegations; the Company will receive a full release of these and all other allegations in the complaint. The Company also agreed to certain reporting obligations regarding its pricing for a limited time period and, in lieu of such obligations for a transitional period, to provide Medi-Cal with a discount until the end of July 2012.

As provided for in the agreement in principle, upon execution of a definitive agreement, the Company will resume billing for all unbilled services and expects to be reimbursed for all services provided prior to the date of a final settlement agreement. Such reimbursement is expected to be consistent with the related amounts accrued.

The terms of the settlement are subject to the final negotiation and execution of a definitive agreement, and certain approvals by the State of California and final approval by the Company's Board of Directors. There can be no assurance, however, when or whether a settlement may be finalized, or as to its terms. If a settlement is not finalized, the Company would continue to vigorously defend itself and could incur significant costs in doing so.

As a result of the agreement in principle, the Company has recorded a pre-tax charge to earnings in the first quarter of 2011 of $236 million, which represents the cost to resolve the matters noted above and related claims, less amounts previously reserved for related matters, and reflects the Company's current estimate of the expected probable loss with respect to these matters, assuming the settlement is finalized. If a settlement is not finalized, the eventual losses related to these matters could be materially different than the amount recorded and could be material to the Company's results of operations, cash flows and financial condition in the period that such matters are determined or paid.

In 2005, the Company received a subpoena from the U.S. Department of Health and Human Services, Office of the Inspector General, seeking business records including records regarding the Company's relationship with health maintenance organizations, independent physician associations, group purchasing organizations, and preferred provider organizations relating back to 1995. The Company has cooperated with the investigation. Subsequently, in November 2009, the U.S. District Court for the Southern District of New York partially unsealed a civil complaint, U.S. ex rel. Fair Laboratory Practices Associates v. Quest Diagnostics Incorporated, filed against the Company under the whistleblower provisions of the federal False Claims Act. The complaint alleges, among other things, violations of the federal Anti-Kickback Statute and the federal False Claims Act in connection with the Company's pricing of laboratory services. The complaint seeks damages for alleged false claims associated with laboratory tests reimbursed by government payors, treble damages and civil penalties. In March 2011, the district court granted the Company's motion to dismiss the relators' complaint and disqualified the relators from pursuing an action based on the facts alleged in the complaint; the relators filed a notice of appeal. The government has been given additional time to decide whether to join the case.

In June 2009, a shareholder plaintiff filed a purported derivative action in the Superior Court of New Jersey, Morris County, on behalf of the Company against certain present and former directors and officers of the Company based on, among other things, their alleged breaches of fiduciary duties in connection with the manufacture, marketing, sale and billing related to certain test kits manufactured by NID. The complaint includes claims for, among other things, breach of fiduciary duty and waste of corporate assets and seeks, among other things, damages and remission of compensation received by the individual defendants. The Company filed a motion to dismiss, which was granted.

In April 2010, a putative class action was filed against the Company and NID in the U.S. District Court for the Eastern District of New York on behalf of entities that allegedly purchased or paid for certain of NID's test kits. The complaint alleges that certain of NID's test kits were defective and that defendants, among other things, violated RICO and state consumer protection laws. The complaint alleges an unspecified amount of damages.

In August 2010, a shareholder derivative action was filed in the Superior Court of New Jersey, Morris County, on behalf of the Company against the directors and certain present officers of the Company. The complaint alleges that the defendants breached their fiduciary duties in connection with, among other things, alleged overcharges by the Company to Med-Cal for testing services, and seeks unspecified compensatory damages and equitable relief. The action was dismissed without prejudice.

In November 2010, a putative class action was filed against the Company and certain present and former officers of the Company in the Superior Court of New Jersey, Essex County, on behalf of the Company's sales people nationwide who were over forty years old and who either resigned or were terminated after being placed on a performance improvement plan. The complaint alleges that the defendants' conduct violates the New Jersey Law Against Discrimination, and seeks, among other things, unspecified damages. The defendants removed the complaint to the United States District Court for the District of New Jersey.

In addition, the Company and certain of its subsidiaries have received subpoenas from state agencies in five states and from the Office of the Inspector General of the U.S. Department of Health and Human Services which seek documents relating to the Company's billing practices. The Company is cooperating with the requests.

The federal or state governments may bring claims based on new theories as to the Company's practices which management believes to be in compliance with law. In addition, certain federal and state statutes, including the qui tam provisions of the federal False Claims Act, allow private individuals to bring lawsuits against healthcare companies on behalf of government or private payers. The Company is aware of certain pending individual or class action lawsuits, and has received several subpoenas, related to billing practices filed under the qui tam provisions of the Civil False Claims Act and/or other federal and state statutes, regulations or other laws. The Company understands that there may be other pending qui tam claims brought by former employees or other "whistle blowers" as to which the Company cannot determine the extent of any potential liability.

Several of these matters are in their early stages of development and involve responding to and cooperating with various government investigations and related subpoenas. While the Company believes that at least a reasonable possibility exists that losses may have been incurred, based on the nature and status of the investigations, the losses are either currently not probable or cannot be reasonably estimated.

Management has established reserves in accordance with generally accepted accounting principles for the matters discussed above. Such reserves totaled approximately $246 million and $10 million as of March 31, 2011 and December 31, 2010, respectively. Management cannot predict the outcome of such matters. With the potential exception of the California Lawsuit, management does not anticipate that the ultimate outcome of such matters will have a material adverse effect on the Company's financial condition. However, the outcome of such matters may be material to the Company's results of operations or cash flows in the period in which the impact of such matters is determined or paid.

As a general matter, providers of clinical testing services may be subject to lawsuits alleging negligence or other similar legal claims. These suits could involve claims for substantial damages. Any professional liability litigation could also have an adverse impact on the Company's client base and reputation. The Company maintains various liability insurance coverages for, among other things, claims that could result from providing, or failing to provide, clinical testing services, including inaccurate testing results, and other exposures. The Company's insurance coverage limits its maximum exposure on individual claims; however, the Company is essentially self-insured for a significant portion of these claims. Reserves for such matters, including those associated with both asserted and incurred but not reported claims, are established by considering actuarially determined losses based upon the Company's historical and projected loss experience. Such reserves totaled approximately $134 million and $130 million as of March 31, 2011 and December 31, 2010, respectively. Management believes that established reserves and present insurance coverage are sufficient to cover currently estimated exposures. Management cannot predict the outcome of any claims made against the Company. Although management does not anticipate that the ultimate outcome of any such proceedings or claims will have a material adverse effect on the Company's financial condition, the outcome may be material to the Company's results of operations or cash flows in the period in which the impact of such claims is determined or paid.

(dollars in thousands unless otherwise indicated)

12. DISCONTINUED OPERATIONS

Summarized financial information for the discontinued operations of NID, a test kit manufacturing subsidiary which was closed in 2006, is set forth below:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net revenues	$ —	$ —
Income (loss) from discontinued operations before income taxes	(92)	15
Income tax expense	(282)	(67)
Loss from discontinued operations, net of taxes	$ (374)	$ (52)

The remaining balance sheet information related to NID was not material at March 31, 2011 and December 31, 2010.

13. BUSINESS SEGMENT INFORMATION

Clinical testing is an essential element in the delivery of healthcare services. Physicians use clinical tests to assist in the detection, diagnosis, evaluation, monitoring and treatment of diseases and other medical conditions. Clinical testing is generally categorized as clinical laboratory testing and anatomic pathology services. Clinical laboratory testing is performed on whole blood, serum, plasma and other body fluids, such as urine, and specimens such as microbiology samples. Anatomic pathology services are principally for the detection of cancer and are performed on tissues, such as biopsies, and other samples, such as human cells. Customers of the clinical testing business include patients, physicians, hospitals, employers, governmental institutions and other commercial clinical laboratories. The clinical testing business accounted for greater than 90% of net revenues from continuing operations in 2011 and 2010.

All other operating segments include the Company's non-clinical testing businesses and consist of its risk assessment services, clinical trials testing, healthcare information technology and diagnostics products businesses. The Company's risk assessment business provides underwriting support services to the life insurance industry including teleunderwriting, specimen collection and paramedical examinations, laboratory testing, medical record retrieval, case management, motor vehicle reports, telephone inspections, prescription histories and credit checks. The Company's clinical trials testing business provides clinical testing performed in connection with clinical research trials on new drugs, vaccines and certain medical devices. The Company's healthcare information technology business is a developer and integrator of clinical connectivity and data management solutions for healthcare organizations, physicians and clinicians than can help improve patient care and medical practice. The Company's diagnostics products business manufactures and markets products that enable healthcare professionals to make healthcare diagnoses, including products for point-of-care testing for the professional market.

On April 19, 2006, the Company decided to discontinue NID's operations and results of operations for NID have been classified as discontinued operations for all periods presented (see Note 12).

At March 31, 2011, substantially all of the Company's services are provided within the United States, and substantially all of the Company's assets are located within the United States.

The following table is a summary of segment information for the three months ended March 31, 2011 and 2010. Segment asset information is not presented since it is not used by the chief operating decision maker at the operating segment level. Operating earnings (loss) of each segment represents net revenues less directly identifiable expenses to arrive at operating income for the segment. General management and administrative corporate expenses, including amortization of intangible assets and the charge to earnings in the first quarter of 2011 of $236 million related to an agreement in principle to resolve the California Lawsuit (see Note 11), are included in general corporate expenses below. The accounting policies of the segments are the same as those of the Company as set forth in Note 2 to the Consolidated Financial Statements contained in the Company's 2010 Annual Report on Form 10-K and Note 2 to the interim consolidated financial statements.

(dollars in thousands unless otherwise indicated)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net revenues:		
Clinical laboratory testing business	$ 1,662,165	$ 1,657,067
All other operating segments	159,412	148,436
Total net revenues	$ 1,821,577	$ 1,805,503
Operating earnings (loss):		
Clinical laboratory testing business	$ 310,284	$ 340,884
All other operating segments	8,012	2,400
General corporate expenses	(287,336)	(44,722)
Total operating income	30,960	298,562
Non-operating expenses, net	(28,022)	(21,979)
Income from continuing operations before taxes	2,938	276,583
Income tax expense	49,226	105,378
Income (loss) from continuing operations	(46,288)	171,205
Loss from discontinued operations, net of taxes	(374)	(52)
Net income (loss)	(46,662)	171,153
Less: Net income attributable to noncontrolling interests	7,199	8,705
Net income (loss) attributable to Quest Diagnostics	$ (53,861)	$ 162,448

14. SUBSEQUENT EVENTS

Acquisition of Athena Diagnostics

On February 24, 2011, the Company signed a definitive agreement to acquire Athena Diagnostics ("Athena") from Thermo Fisher Scientific, Inc., in an all-cash transaction valued at approximately $740 million. Athena is the leading provider of advanced diagnostic tests related to neurological conditions, and generated revenues of approximately $110 million in 2010. The Company completed the acquisition of Athena on April 4, 2011.

The Company financed the aggregate purchase price of $740 million and related transaction costs using a portion of the net proceeds from the Company's 2011 Senior Notes Offering. See Note 7 for further discussion of the 2011 Senior Notes Offering.

Acquisition of Celera Corporation

On March 17, 2011, the Company entered into a definitive merger agreement with Celera Corporation ("Celera") under which the Company agreed to acquire Celera in a transaction valued at approximately $344 million, net of $327 million in acquired cash and short-term investments. Celera is a healthcare business delivering personalized disease management through a combination of products and services incorporating proprietary discoveries. Celera generated revenues of $128 million in 2010.

Under the terms of the definitive merger agreement, the Company, through a wholly-owned subsidiary, commenced a cash tender offer to purchase all of the outstanding shares of common stock of Celera for $8 per share in cash. On May 4, 2011, the Company announced that as a result of the tender offer, the Company has a controlling ownership interest in Celera. The tender offer is expected to be followed by a merger, in which the remaining shares of Celera common stock that have not been tendered into the tender offer will be converted into the right to receive $8 per share in cash. The transaction is expected to close in the second quarter of 2011.

The Company expects to finance the aggregate purchase price of approximately $671 million and related transaction costs with borrowings under its existing credit facilities and cash on hand.

15. SUMMARIZED FINANCIAL INFORMATION

The Company's Senior Notes due 2011, Floating Rate Senior Notes due 2014, Senior Notes due 2015, Senior Notes due 2016, Senior Notes due 2017, Senior Notes due 2020, Senior Notes due 2021, Senior Notes due 2037 and Senior Notes due 2040 are fully and unconditionally guaranteed, jointly and severally, by the Subsidiary Guarantors. With the exception of Quest Diagnostics Receivables Incorporated ("QDRI") (see paragraph below), the non-guarantor subsidiaries are primarily foreign subsidiaries and less than wholly-owned subsidiaries.

In conjunction with the Company's secured receivables credit facility, the Company maintains a wholly-owned non-guarantor subsidiary, QDRI. The Company and certain of its Subsidiary Guarantors transfer certain domestic receivables to QDRI. QDRI utilizes the transferred receivables to collateralize borrowings under the Company's secured receivables credit facility. The Company and the Subsidiary Guarantors provide collection services to QDRI. QDRI uses cash collections principally to purchase new receivables from the Company and the Subsidiary Guarantors.

The following condensed consolidating financial data illustrates the composition of the combined guarantors. Investments in subsidiaries are accounted for by the parent using the equity method for purposes of the supplemental consolidating presentation. Earnings (losses) of subsidiaries are therefore reflected in the parent's investment accounts and earnings. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions.

(dollars in thousands unless otherwise indicated)

Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2011

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net revenues	$ 198,489	$ 1,503,344	$ 191,287	$ (71,543)	$ 1,821,577
Operating costs and expenses:					
Cost of services	123,591	907,390	66,017	—	1,096,998
Selling, general and administrative	38,436	311,729	105,053	(7,360)	447,858
Amortization of intangible assets	163	8,149	1,537	—	9,849
Royalty (income) expense	(102,356)	102,356	—	—	—
Other operating expense (income), net	236,278	(214)	(152)	—	235,912
Total operating costs and expenses	296,112	1,329,410	172,455	(7,360)	1,790,617
Operating income (loss)	(97,623)	173,934	18,832	(64,183)	30,960
Non-operating (expense) income, net	(38,420)	(57,154)	3,369	64,183	(28,022)
Income (loss) from continuing operations before taxes	(136,043)	116,780	22,201	—	2,938
Income tax expense (benefit)	(3,614)	46,165	6,675	—	49,226
Income (loss) from continuing operations	(132,429)	70,615	15,526	—	(46,288)
Loss from discontinued operations, net of taxes	—	(374)	—	—	(374)
Equity earnings from subsidiaries	78,568	—	—	(78,568)	—
Net income (loss)	(53,861)	70,241	15,526	(78,568)	(46,662)
Less: Net income attributable to noncontrolling interests	—	—	7,199	—	7,199
Net income (loss) attributable to Quest Diagnostics	$ (53,861)	$ 70,241	$ 8,327	$ (78,568)	$ (53,861)

Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2010

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net revenues	$ 211,221	$ 1,482,590	$ 192,336	$ (80,644)	$ 1,805,503
Operating costs and expenses:					
Cost of services	122,587	879,787	63,999	—	1,066,373
Selling, general and administrative	23,078	314,118	100,868	(7,331)	430,733
Amortization of intangible assets	17	7,631	1,711	—	9,359
Royalty (income) expense	(101,492)	101,492	—	—	—
Other operating expense (income), net	1,025	233	(782)	—	476
Total operating costs and expenses	45,215	1,303,261	165,796	(7,331)	1,506,941
Operating income	166,006	179,329	26,540	(73,313)	298,562
Non-operating (expense) income, net	(30,559)	(66,445)	1,712	73,313	(21,979)
Income from continuing operations before taxes	135,447	112,884	28,252	—	276,583
Income tax expense	51,485	45,747	8,146	—	105,378
Income from continuing operations	83,962	67,137	20,106	—	171,205
Loss from discontinued operations, net of taxes	—	(52)	—	—	(52)
Equity earnings from subsidiaries	78,486	—	—	(78,486)	—
Net income	162,448	67,085	20,106	(78,486)	171,153
Less: Net income attributable to noncontrolling interests	—	—	8,705	—	8,705
Net income attributable to Quest Diagnostics	$ 162,448	$ 67,085	$ 11,401	$ (78,486)	$ 162,448

(dollars in thousands unless otherwise indicated)

Condensed Consolidating Balance Sheet
March 31, 2011

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 937,004	$ 5,605	$ 51,633	$ —	$ 994,242
Accounts receivable, net	21,254	135,110	783,994	—	940,358
Other current assets	100,869	166,358	98,158	—	365,385
Total current assets	1,059,127	307,073	933,785	—	2,299,985
Property, plant and equipment, net	175,668	605,582	40,276	—	821,526
Goodwill and intangible assets, net	156,075	5,272,221	485,990	—	5,914,286
Intercompany receivable (payable)	69,410	328,739	(398,149)	—	—
Investment in subsidiaries	6,294,520	—	—	(6,294,520)	—
Other assets	233,271	9,953	49,433	(103,725)	188,932
Total assets	$ 7,988,071	$ 6,523,568	$ 1,111,335	$ (6,398,245)	$ 9,224,729
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 887,236	$ 195,696	$ 54,394	$ —	$ 1,137,326
Current portion of long-term debt	483,670	144,258	1,310	—	629,238
Total current liabilities	1,370,906	339,954	55,704	—	1,766,564
Long-term debt	3,251,482	18,422	324,739	—	3,594,643
Other liabilities	151,093	523,025	55,125	(103,725)	625,518
Stockholders' equity:					
Quest Diagnostics stockholders' equity	3,214,590	5,642,167	652,353	(6,294,520)	3,214,590
Noncontrolling interests	—	—	23,414	—	23,414
Total stockholders' equity	3,214,590	5,642,167	675,767	(6,294,520)	3,238,004
Total liabilities and stockholders'equity	$ 7,988,071	$ 6,523,568	$ 1,111,335	$ (6,398,245)	$ 9,224,729

(dollars in thousands unless otherwise indicated)

Condensed Consolidating Balance Sheet
December 31, 2010

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 392,525	$ 928	$ 55,848	$ —	$ 449,301
Accounts receivable, net	15,913	135,417	693,969	—	845,299
Other current assets	55,723	165,099	96,183	(6,188)	310,817
Total current assets	464,161	301,444	846,000	(6,188)	1,605,417
Property, plant and equipment, net	179,624	616,114	38,638	—	834,376
Goodwill and intangible assets, net	155,596	5,279,371	463,376	—	5,898,343
Intercompany receivable (payable)	84,107	231,268	(315,375)	—	—
Investment in subsidiaries	6,195,557	—	—	(6,195,557)	—
Other assets	227,822	10,090	48,319	(96,737)	189,494
Total assets	$ 7,306,867	$ 6,438,287	$ 1,080,958	$ (6,298,482)	$ 8,527,630
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued expenses	$ 623,610	$ 190,334	$ 57,516	$ (6,188)	$ 865,272
Current portion of long-term debt	203,659	144,004	1,333	—	348,996
Total current liabilities	827,269	334,338	58,849	(6,188)	1,214,268
Long-term debt	2,295,709	19,342	326,109	—	2,641,160
Other liabilities	150,409	512,681	51,724	(96,737)	618,077
Stockholders' equity:					
Quest Diagnostics stockholders' equity	4,033,480	5,571,926	623,631	(6,195,557)	4,033,480
Noncontrolling interests	—	—	20,645	—	20,645
Total stockholders' equity	4,033,480	5,571,926	644,276	(6,195,557)	4,054,125
Total liabilities and stockholders' equity	$ 7,306,867	$ 6,438,287	$ 1,080,958	$ (6,298,482)	$ 8,527,630

QUEST DIAGNOSTICS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(dollars in thousands unless otherwise indicated)

Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2011

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ (53,861)	$ 70,241	$ 15,526	$ (78,568)	$ (46,662)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	11,335	47,997	4,033	—	63,365
Provision for doubtful accounts	1,418	14,046	61,912	—	77,376
Provision for special charge	236,000	—	—	—	236,000
Other, net	(107,207)	8,351	(739)	78,568	(21,027)
Changes in operating assets and liabilities	38,251	(40,044)	(146,679)	—	(148,472)
Net cash provided by (used in) operating activities	125,936	100,591	(65,947)	—	160,580
Net cash used in investing activities	(12,603)	(27,920)	(2,076)	1,846	(40,753)
Net cash provided by (used in) financing activities	431,146	(67,994)	63,808	(1,846)	425,114
Net change in cash and cash equivalents	544,479	4,677	(4,215)	—	544,941
Cash and cash equivalents, beginning of period	392,525	928	55,848	—	449,301
Cash and cash equivalents, end of period	$ 937,004	$ 5,605	$ 51,633	$ —	$ 994,242

Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2010

	Parent	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 162,448	$ 67,085	$ 20,106	$ (78,486)	$ 171,153
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	12,348	46,853	4,132	—	63,333
Provision for doubtful accounts	1,471	12,107	62,701	—	76,279
Other, net	(22,721)	(22,860)	(9,034)	78,486	23,871
Changes in operating assets and liabilities	67,891	(106,426)	(56,886)	—	(95,421)
Net cash provided by (used in) operating activities	221,437	(3,241)	21,019	—	239,215
Net cash used in investing activities	(50,483)	(29,595)	(1,189)	38,673	(42,594)
Net cash (used in) provided by financing activities	(261,525)	37,412	(4,852)	(38,673)	(267,638)
Net change in cash and cash equivalents	(90,571)	4,576	14,978	—	(71,017)
Cash and cash equivalents, beginning of period	464,958	17,457	51,841	—	534,256
Cash and cash equivalents, end of period	$ 374,387	$ 22,033	$ 66,819	$ —	$ 463,239

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions and select accounting policies that affect our reported financial results and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

While many operational aspects of our business are subject to complex federal, state and local regulations, the accounting for most of our business is generally straightforward with net revenues primarily recognized upon completion of the testing process. Our revenues are primarily comprised of a high volume of relatively low dollar transactions, and about one-half of our total costs and expenses consist of employee compensation and benefits. Due to the nature of our business, several of our accounting policies involve significant estimates and judgments. These accounting policies have been described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Acquisitions

Acquisition of Athena Diagnostics

On February 24, 2011, we signed a definitive agreement to acquire Athena Diagnostics ("Athena") from Thermo Fisher Scientific, Inc., in an all-cash transaction valued at approximately $740 million. Athena is the leading provider of advanced diagnostic tests related to neurological conditions, and generated revenues of approximately $110 million in 2010. We completed the acquisition of Athena on April 4, 2011 (see Note 14 to the interim consolidated financial statements for further details).

Acquisition of Celera Corporation

On March 17, 2011, we entered into a definitive merger agreement with Celera Corporation ("Celera") under which we agreed to acquire Celera for $8 per share, in a transaction valued at approximately $344 million, net of $327 million in acquired cash and short-term investments. Celera is a healthcare business delivering personalized disease management through a combination of products and services incorporating proprietary discoveries. Celera generated revenues of $128 million in 2010. On May 4, 2011, we announced that as a result of the tender offer, we have a controlling ownership interest in Celera. The transaction is expected to close in the second quarter of 2011 (see Note 14 to the interim consolidated financial statements for further details).

Results of Operations

Our clinical testing business currently represents our one reportable business segment. In both 2011 and 2010, our clinical testing business accounted for greater than 90% of net revenues. Our other operating segments consist of our risk assessment services, clinical trials testing, healthcare information technology and diagnostic products businesses. Our business segment information is disclosed in Note 13 to the interim consolidated financial statements.

Agreement in Principle Related to the California Lawsuit

As a result of settlement discussions which resumed in the first quarter of 2011, on May 9, 2011, we announced an agreement in principle to resolve a previously disclosed civil lawsuit brought by a California competitor in which the State of California intervened (the "California Lawsuit"). In the lawsuit, the plaintiffs allege, among other things, that we overcharged Medi-Cal for testing services and violated the California False Claims Act. Specifically, the plaintiffs allege, among other things, that we violated certain regulations that govern billing to Medi-Cal ("Comparable Charge" regulations). While denying liability, in order to avoid the uncertainty, expense and risks of litigation, we agreed to resolve these matters for $241 million. We are paying this amount to resolve the Comparable Charge allegations; we will receive a full release of these and all other allegations in the complaint. We also agreed to certain reporting obligations regarding our pricing for a limited time period and, in lieu of such obligations for a transitional period, to provide Medi-Cal with a discount until the end of July 2012.

As provided for in the agreement in principle, upon execution of a definitive agreement, we will resume billing for all unbilled services and expect to be reimbursed for all services provided prior to the date of a final settlement agreement. Such reimbursement is expected to be consistent with the related amounts accrued.

The terms of the settlement are subject to the final negotiation and execution of a definitive agreement, and certain approvals by the State of California and final approval by our Board of Directors. There can be no assurance, however, when or whether a settlement may be finalized, or as to its terms. If a settlement is not finalized, we would continue to vigorously defend ourselves and could incur significant costs in doing so.

As a result of the agreement in principle, we have recorded a pre-tax charge to earnings in the first quarter of 2011 of $236 million (the "Medi-Cal charge"), or $1.19 per share, which represents the cost to resolve the matters noted above and related claims, less amounts previously reserved for related matters, and reflects our current estimate of the expected probable loss with respect to these matters, assuming the settlement is finalized. If a settlement is not finalized, the eventual losses related to these matters could be materially different than the amount recorded and could be material to our results of operations, cash flows and financial condition in the period that such matters are determined or paid.

We expect to fund the $241 million payment upon the execution of a final settlement agreement, which is currently expected in the second quarter of 2011, with cash on hand and borrowings under our existing credit facilities. See Note 11 to the interim consolidated financial statements for further details.

Three Months Ended March 31, 2011 Compared with Three Months Ended March 31, 2010

Continuing Operations

	2011	2010	% Change Increase (decrease)
	(dollars in millions, except per share data)		
Net revenues	$ 1,821.6	$ 1,805.5	0.9%

Income (loss) from continuing operations		(53.5)		162.5	(132.9%)
Earnings (loss) per diluted share	$	(0.33)	$	0.89	(137.1%)

Results for the three months ended March 31, 2011 were affected by a number of items which impacted earnings per share by $1.33. As noted earlier, we recorded a pre-tax charge in "other operating expense, net" in the first quarter of 2011 of $236 million, or $1.19 per share, associated with the California Lawsuit. Also included in the quarter were $13.3 million of pre-tax charges, or $0.05 per diluted share, principally associated with workforce reductions. Of these costs, $9.0 million and $4.3 million were included in cost of services and selling, general and administrative expenses, respectively. Results for the quarter also included $4.7 million of pre-tax transaction costs, or $0.02 per diluted share, associated with the acquisitions of Athena and Celera. Of these costs, $2.3 million, primarily related to professional and filing fees, was recorded in selling, general and administrative expenses and $2.4 million of financing related costs were recorded in interest expense, net. In addition, we estimate that the impact of severe weather during the quarter adversely affected operating income by $18.5 million, or $0.07 per diluted share.

Results for the three months ended March 31, 2010 were affected by a number of items which impacted earnings per share by $0.11. Included in the quarter were pre-tax charges of $17.3 million, or $0.06 per diluted share, principally associated with workforce reductions. Of these costs, $4.5 million and $12.8 million were included in cost of services and selling, general and administrative expenses, respectively. In addition, we estimate that the impact of severe weather during the quarter adversely affected operating income by $14.1 million, or $0.05 per diluted share.

Net Revenues

Net revenues for the period ended March 31, 2011 grew approximately 1% compared to the prior year. Clinical testing revenue, which accounted for over 90% of our consolidated revenues, grew 0.3%. We estimate that the impact of severe weather in the first quarter of 2011 adversely affected net revenues by $25.7 million. Clinical testing volume, measured by the number of requisitions, increased by 2% over the prior year period. The year-over-year volume comparisons benefitted by an estimated 1% due to the number of business days in the quarter. In addition, while severe weather impacted revenues and volume in the first quarters of 2011 and 2010, the impact was greater in 2011 (estimated at 1.4%) than in 2010 (estimated at 1.1%) and adversely impacted the year over year comparisons by 0.3%. After considering the impact of business days and severe weather in each year, underlying volume grew an estimated 1.3% compared to the prior year and reflects continued improvement. Pre-employment drug testing volume, which has continued to rebound, grew about 11% in the quarter.

Revenue per requisition for the three months ended March 31, 2011 decreased 1.7% below the prior year period. Revenue per requisition continues to benefit from an increased mix in gene-based and esoteric testing and an increase in the number of tests ordered per requisition. Offsetting these benefits were business and payor mix changes, including an increase in lower priced drugs-of-abuse testing and a decrease in higher priced anatomic pathology testing; price changes in connection with several large contract extensions executed in the first half of last year; and the 1.75% Medicare fee schedule decrease, which went into effect January 1, 2011 and served to decrease revenue per requisition by 0.3%.

Our businesses other than clinical laboratory testing accounted for approximately 9% of our net revenues for both the first quarter of 2011 and 2010. These businesses include our risk assessment services, clinical trials testing, healthcare information technology, and diagnostic products businesses. For the three months ended March 31, 2011, revenue in our non-clinical testing businesses, which contain most of our international operations, grew by approximately 7%.

Operating Costs and Expenses

	2011		2010		Change Increase (decrease)	
	$	% Net Revenues	$	% Net Revenues	$	% Net Revenues
	(dollars in millions)					
Cost of services	$ 1,097.0	60.2%	$ 1,066.4	59.1%	$ 30.6	1.1%
Selling, general and administrative expenses (SG&A)	447.9	24.6	430.7	23.9	17.2	0.7
Amortization of intangible assets	9.8	0.5	9.4	0.5	0.4	—
Other operating expense, net	235.9	13.0	0.4	—	235.5	13.0
Total operating costs and expenses	$ 1,790.6	98.3%	$ 1,506.9	83.5%	$ 283.7	14.8%
Bad debt expense (included in SG&A)	$ 77.4	4.2%	$ 76.3	4.2%	$ 1.1	—%

Total Operating Costs and Expenses

For the first quarter of 2011, the impacts of the Medi-Cal charge, severe weather, lower revenue per requisition, higher costs associated with employee compensation and benefits, and investments we have made in our sales force and service capabilities, as well as costs related to the Athena and Celera transactions, served to increase total operating expenses as a percent of net revenues compared to the prior year period. Partially offsetting these increases was a year-over-year reduction in costs associated with actions we have taken to adjust our cost structure, primarily associated with workforce reductions. Results for the three months ended March 31, 2011 included a pre-tax charge of $236 million recorded in connection with the California Lawsuit. Results for the three months ended March 31, 2011 and 2010 included pre-tax charges principally associated with workforce reductions of $13.3 million ($9.0 million in cost of services and $4.3 million in selling, general and administrative expenses) and $17.3 million ($4.5 million in cost of services and $12.8 million in selling, general and administrative expenses), respectively. Selling, general and administrative expenses for the three months ended March 31, 2011 also included $2.3 million of pre-tax transaction costs related to professional and filing fees associated with the acquisitions of Athena and Celera.

Cost of Services

Cost of services includes the costs of obtaining, transporting and testing specimens. The increase in cost of services as a percentage of net revenues for the three months ended March 31, 2011 compared to the prior year period primarily reflects the impacts of severe weather and a decrease in revenue per requisition, a $4.5 million increase in pre-tax charges associated with workforce reductions and higher costs associated with employee compensation and benefits and investments we have made in service capabilities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include the costs of the sales force, billing operations, bad debt expense and general management and administrative support. The increase in selling, general and administrative expenses as a percentage of net revenues for the three months ended March 31, 2011 compared to the prior year period primarily reflects the impact of severe weather and a decrease in revenue per requisition, higher costs associated with employee compensation and benefits and investments we have made in our sales force, and $2.3 million of pre-tax transaction costs related to the Athena and Celera acquisitions. These increases were partially offset by an $8.5 million decrease in pre-tax charges associated with workforce reductions.

For the three months ended March 31, 2011 bad debt expense, as a percentage of net revenues, has remained unchanged from the prior year period.

Other Operating Expense, net

Other operating expense, net includes special charges, and miscellaneous income and expense items related to operating activities. For the three months ended March 31, 2011, other operating expense, net included a pre-tax charge of $236 million recorded in connection with the California Lawsuit.

Operating Income

	2011		2010		Change Increase (decrease)	
	$	% Net Revenues	$	% Net Revenues	$	% Net Revenues
	(dollars in millions)					
Operating income	$ 31.0	1.7%	$ 298.6	16.5%	$ (267.6)	(14.8%)

For the first quarter of 2011, the impacts of the Medi-Cal charge, severe weather, lower revenue per requisition, higher costs associated with employee compensation and benefits, investments we have made in our sales force and service capabilities, and costs related to the Athena and Celera transactions, served to decrease operating income as a percent of net revenues compared to the prior year period. Partially offsetting these decreases was a year-over-year reduction in costs associated with actions we have taken to adjust our cost structure, primarily associated with workforce reductions.

Interest Expense, net

	2011	2010	Change Increase (decrease)
	(dollars in millions)		
Interest expense, net	$ 37.9	$ 36.0	$ 1.9

Interest expense, net for the three months ended March 31, 2011 increased from the prior year period, primarily due to $2.4 million of financing commitment fees related to the acquisition of Celera which were expensed in the first quarter of 2011. See Note 14 to the interim consolidated financial statements for further details regarding the acquisition of Celera.

Other Income, net

Other income, net represents miscellaneous income and expense items related to non-operating activities, such as gains and losses associated with investments and other non-operating assets. For the three months ended March 31, 2011 and 2010, other income, net consisted of the following:

	2011	2010	Change Increase (decrease)
	(dollars in millions)		
Investment gains associated with our supplemental deferred compensation plans	$ 2.1	$ 2.6	$ (0.5)
(Loss) gain on an investment	(0.2)	4.0	(4.2)
Other income (expense) items, net	0.3	(0.6)	0.9
Total other income, net	$ 2.2	$ 6.0	$ (3.8)

Income Tax Expense

	2011	2010	Change Increase (decrease)
	(dollars in millions)		
Income tax expense	$ 49.2	$ 105.4	$ (56.2)

The increase in the effective income tax rate for the three months ended March 31, 2011 is primarily due to a charge recorded in the first quarter of 2011 associated with the California Lawsuit (see Note 11 to the interim consolidated financial statements), a portion for which a tax benefit has not been recorded.

Discontinued Operations

Loss from discontinued operations, net of taxes, for the three months ended March 31, 2011 and 2010 was $0.4 million and $0.1 million, respectively, with no impact on diluted earnings per share in either period. See Note 12 to the interim consolidated financial statements for further details.

Quantitative and Qualitative Disclosures About Market Risk

We address our exposure to market risks, principally the market risk of changes in interest rates, through a controlled program of risk management that includes the use of derivative financial instruments. We do not hold or issue derivative financial instruments for trading purposes. We believe that our exposures to foreign exchange impacts and changes in commodities prices are not material to our consolidated financial condition or results of operations. See Note 8 to the interim consolidated financial statements for additional discussion of our financial instruments and hedging activities.

At March 31, 2011 and December 2010, the fair value of our debt was estimated at approximately $4.4 billion and $3.1 billion, respectively, using quoted market prices and yields for the same or similar types of borrowings, taking into account the underlying terms of the debt instruments. At March 31, 2011 and December 31, 2010, the estimated fair value exceeded the carrying value of the debt by $126 million and $80 million, respectively. A hypothetical 10% increase in interest rates (representing 43 basis points and 45 basis points at March 31, 2011 and December 31, 2010, respectively) would potentially reduce the estimated fair value of our debt by approximately $126 million and $89 million at March 31, 2011 and December 31, 2010, respectively.

Borrowings under our floating rate senior notes due 2014, our term loan due May 2012, our senior unsecured revolving credit facility and our secured receivables credit facility are subject to variable interest rates. Interest on our secured receivables credit facility is based on rates that are intended to approximate commercial paper rates for highly-rated issuers. Interest on our term loan due May 2012 and our senior unsecured revolving credit facility are subject to a pricing schedule that can fluctuate based on changes in our credit ratings. As such, our borrowing cost under these credit arrangements will be subject to both fluctuations in interest rates and changes in our credit ratings. At March 31, 2011, the borrowing rates under these debt instruments were: for our floating rate senior notes due 2014, LIBOR plus 0.85%; for our term loan due May 2012, LIBOR, plus 0.40%; for our senior unsecured credit facility, LIBOR, plus 0.40%; and for our secured receivables credit facility, 1.16%. At March 31, 2011, the weighted average LIBOR was 0.3%. At March 31, 2011, $200 million and $742 million were outstanding under our floating rate senior notes due 2014 and our term loan due May 2012, respectively. There were no borrowings outstanding under our $750 million senior unsecured revolving credit facility or our $525 million secured receivables credit facility as of March 31, 2011.

We seek to mitigate the variability in cash outflows that result from changes in interest rates by maintaining a balanced mix of fixed-rate and variable-rate debt obligations. In order to achieve this objective, we have entered into interest rate swaps. Interest rate swaps involve the periodic exchange of payments without the exchange of underlying principal or notional amounts. Net settlements are recognized as an adjustment to interest expense.

In March 2011, we entered into various fixed-to-variable interest rate swap agreements which have a notional amount totaling $200 million and a variable interest rate based on six-month LIBOR plus 0.54%. These derivative financial instruments are accounted for as fair value hedges of a portion of our Senior Notes due 2016. In addition, in previous years we entered into various fixed-to-variable interest rate swap agreements with a notional amount of $350 million and a variable interest rate based on one-month LIBOR plus 1.33% that were accounted for as fair value hedges of a portion of our Senior Notes due 2020. Based on our net exposure to interest rate changes, a hypothetical 10% change in interest rates on our variable rate indebtedness (representing 4 basis points) would impact annual interest expense by approximately $0.5 million, assuming no changes to the debt outstanding at March 31, 2011.

The fair value of the fixed-to-variable interest rate swap agreements related to our Senior Notes due 2016 was a liability of $2.7 million at March 31, 2011. A hypothetical 10% change in interest rates (representing 30 basis points) would potentially change the fair value of the liability by $3 million. The fair value of the fixed-to-variable interest rate swap agreements related to our Senior Notes due 2020 was an asset of $3.3 million at March 31, 2011. A hypothetical 10% change in interest rates (representing 30 basis points) would potentially change the fair value of this asset by $9 million.

For further details regarding our outstanding debt, see Note 10 to the consolidated financial statements included in our 2010 Annual Report on Form 10-K for the year ended December 31, 2010 and Note 7 to the interim consolidated financial statements. For details regarding our financial instruments, see Note 8 to the interim consolidated financial statements.

Risk Associated with Investment Portfolio

Our investment portfolio includes equity investments in publicly held companies that are classified as available-for-sale securities and other strategic equity holdings in privately held companies. These securities are exposed to price fluctuations and are generally concentrated in the life sciences industry. The carrying values of our available-for-sale equity securities and privately held securities were $15.7 million at March 31, 2011.

We regularly evaluate the fair value measurements of our equity investments to determine if losses in value are other than temporary and if an impairment loss has been incurred. The evaluation considers whether the security has the ability to recover and, if so, the estimated recovery period. Other factors that are considered in this evaluation include the amount of the other-than-temporary decline and its duration, the issuer's financial condition and short-term prospects, and whether the market decline was caused by overall economic conditions or conditions specific to the individual security.

We do not hedge our equity price risk. The impact of an adverse movement in equity prices on our holdings in privately held companies cannot be easily quantified, as our ability to realize returns on investments depends on, among other things, the enterprises' ability to raise additional capital or derive cash inflows from continuing operations or through liquidity events such as initial public offerings, mergers or private sales.

Liquidity and Capital Resources

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2011 totaled $994 million, $750 million of which was used to fund the acquisition of Athena and related costs, shortly after the end of the quarter. This compares to $449 million at December 31, 2010. Cash and cash equivalents consist of cash and highly liquid short-term investments. For the three months ended March 31, 2011, cash flows from operating activities of $161 million, together with cash flows from financing activities of $425 million, were the principal contributors to the increase in the cash balance. Cash and cash equivalents at March 31, 2010 totaled $463 million, compared to $534 million at December 31, 2009. Cash flows from operating activities in the first quarter of 2010 of $239 million and cash on hand were used to fund investing and financing activities of $43 million and $268 million, respectively.

Cash Flows from Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2011 was $161 million compared to $239 million in the prior year period. This decrease was principally driven by an increase in accounts receivable, together with higher payments for interest, taxes and restructuring charges and lower net income, partially offset by reduced payments associated with variable compensation plans. Days sales outstanding, a measure of billing and collection efficiency, were 44 days at March 31, 2011 and December 31, 2010, compared to 41 days at March 31, 2010. The increase in days sales outstanding from March 31, 2010 is primarily due to the temporary suspension of billing to Medi-Cal, the California Medicaid program. See Note 11 to the interim consolidated financial statements for a further discussion of Medi-Cal.

Cash Flows from Investing Activities

Net cash used in investing activities for the three months ended March 31, 2011 and 2010 was $41 million and $43 million, respectively, and consisted principally of capital expenditures.

Cash Flows from Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2011 was $425 million, consisting primarily of net increases in debt of $1.24 billion, and proceeds from the exercise of stock options and related tax benefits totaling $58 million, partially offset by purchases of treasury stock of $835 million, dividend payments of $17 million and $10 million of payments primarily related to debt issuance costs incurred in connection with our senior notes offering in the first quarter of 2011. The net increase in debt consists of $1.8 billion of borrowings and $0.6 billion of repayments.

In February 2011, borrowings of $500 million under our secured receivables credit facility and $75 million under our senior unsecured credit facility, together with $260 million of cash on hand, were used to fund purchases of treasury stock totaling $835 million. In addition, we completed a $1.25 billion senior notes offering in March 2011 (the "2011 Senior Notes"). We used $485 million of the $1.24 billion in net proceeds from the 2011 Senior Notes offering, together with $90 million of cash on hand, to fund the repayment of $500 million outstanding under our secured receivables credit facility, and the repayment of $75 million outstanding under our unsecured revolving credit facility. The remaining portion of the net proceeds from the 2011 Senior Notes offering were used to fund our acquisition of Athena on April 4, 2011 (see Note 14 to the interim financial statements for further details). The 2011 Senior Notes are further described in Note 7 to the interim consolidated financial statements.

Net cash used in financing activities for the three months ended March 31, 2010 was $268 million, consisting primarily of purchases of treasury stock totaling $251 million, dividend payments of $18 million and a decrease in book overdrafts of $12 million, partially offset by $19 million in proceeds from the exercise of stock options, including related tax benefits.

Dividends

During each of the quarters of 2011 and 2010, our Board of Directors declared a quarterly cash dividend of $0.10 per common share. We expect to fund future dividend payments with cash flows from operations, and do not expect the dividend to have a material impact on our ability to finance future growth.

Share Repurchases

In January 2011, our Board of Directors authorized $750 million of additional share repurchases of our common stock, increasing our total available authorization at that time to $1 billion. The share repurchase authorization has no set expiration or termination date.

For the three months ended March 31, 2011, we repurchased 15.4 million shares of our common stock from SB Holdings Capital Inc., a wholly-owned subsidiary of GlaxoSmithKline plc., at an average price of $54.30 per share for a total of $835 million. At March 31, 2011, $165 million remained available under the share repurchase authorizations.

In January 2010, we executed an accelerated share repurchase transaction with a bank to repurchase 4.5 million shares of our outstanding common stock for an initial purchase price of $56.05 per share. The purchase price of these shares was subject to an adjustment based on the volume weighted average price of our common stock during a period following execution of the agreement. The total cost of the initial purchase was $250 million. The purchase price adjustment was settled in the first quarter of 2010 and resulted in an additional cash payment of $0.7 million, for a final purchase price of $251 million, or $56.21 per share.

Contractual Obligations and Commitments

The following table summarizes certain of our contractual obligations as of March 31, 2011:

	Payments due by period (in thousands)				
Contractual Obligations	**Total**	**Remainder of 2011**	**1-3 years**	**3 –5 years**	**After 5 years**
Outstanding debt	$ 4,201,271	$ 341,271	$ 560,000	$ 700,000	$ 2,600,000
Capital lease obligations	47,072	5,998	15,198	11,411	14,465
Interest payments on outstanding debt	2,255,438	103,037	309,858	303,484	1,539,059
Operating leases	629,968	133,004	231,420	120,622	144,922
Purchase obligations	82,319	36,784	36,114	8,924	497
Total contractual obligations	$ 7,216,068	$ 620,094	$ 1,152,590	$ 1,144,441	$ 4,298,943

Interest payments on our long-term debt have been calculated after giving effect to our interest rate swap agreements, using the interest rates as of March 31, 2011 applied to the March 31, 2011 balances, which are assumed to remain outstanding through their maturity dates.

A full description of the terms of our indebtedness and related debt service requirements and our future payments under certain of our contractual obligations is contained in Note 10 to the Consolidated Financial Statements in our 2010 Annual Report on Form 10-K, as updated in Note 7 to the interim consolidated financial statements. A full discussion and analysis regarding our minimum rental commitments under noncancelable operating leases and noncancelable commitments to purchase product or services at December 31, 2010 is contained in Note 15 to the Consolidated Financial Statements in our 2010 Annual Report on Form 10-K.

As of March 31, 2011, our total liabilities associated with unrecognized tax benefits were approximately $154 million, which were excluded from the table above. We believe it is reasonably possible that these liabilities may decrease by up to $18 million within the next twelve months, primarily as a result of the expiration of statutes of limitations, settlements and/or the conclusion of tax examinations on certain tax positions. For the remainder, we cannot make reasonably reliable estimates of the timing of the future payments of these liabilities. See Note 5 to the Consolidated Financial Statements in our 2010 Annual Report on Form 10-K for information regarding our contingent tax liability reserves.

Our credit agreements and our term loan due May 2012 contain various covenants and conditions, including the maintenance of certain financial ratios, that could impact our ability to, among other things, incur additional indebtedness. As of March 31, 2011, we were in compliance with the various financial covenants included in our credit agreements and we do not expect these covenants to adversely impact our ability to execute our growth strategy or conduct normal business operations.

Unconsolidated Joint Ventures

We have investments in unconsolidated joint ventures in Phoenix, Arizona; Indianapolis, Indiana; and Dayton, Ohio, which are accounted for under the equity method of accounting. We believe that our transactions with our joint ventures are conducted at arm's length, reflecting current market conditions and pricing. Total net revenues of our unconsolidated joint ventures equal less than 6% of our consolidated net revenues. Total assets associated with our unconsolidated joint ventures are less than 2% of our consolidated total assets. We have no material unconditional obligations or guarantees to, or in support of, our unconsolidated joint ventures and their operations.

Requirements and Capital Resources

We estimate that we will invest approximately $220 million during 2011 for capital expenditures, including assets under capitalized leases, to support and expand our existing operations, principally related to investments in information technology, equipment and facility upgrades. We expect to fund the repayment of the current portion of our long-term debt using cash on hand and existing credit facilities.

As of March 31, 2011, $1.3 billion of borrowing capacity was available under our existing credit facilities, consisting of $525 million available under our secured receivables credit facility and $750 million available under our senior unsecured revolving credit facility.

On May 9, 2011, we announced an agreement in principle to resolve the California Lawsuit. In connection with the agreement in principle, we agreed to pay $241 million to resolve these matters. We expect to fund the payment upon the execution of a final agreement, which is currently expected in the second quarter of 2011, with cash on hand and borrowings under our existing credit facilities. See Note 11 to the interim consolidated financial statement for further details.

On March 17, 2011, we entered into a definitive merger agreement with Celera under which we agreed to acquire Celera for $8 per share, representing a transaction value of approximately $344 million, net of $327 million in acquired cash and short-term investments. We will finance the aggregate purchase price of approximately $671 million and related transaction costs with borrowings under our existing credit facilities and cash on hand.

On April 4, 2011, we used approximately $750 million of cash on hand to fund the acquisition of Athena. We financed the aggregate purchase price of $740 million and the related transaction costs using a portion of the net proceeds from our 2011 Senior Notes Offering. See Note 14 to the interim consolidated financial statements for additional information regarding these transactions.

We believe the banks participating in our various credit facilities are predominantly highly-rated banks, and that the borrowing capacity under the credit facilities described above is currently available to us. Should one or several banks no longer participate in either of our credit facilities, we would not expect it to impact our ability to fund operations. We expect that we will be able to replace our existing secured receivable credit facility and our senior unsecured revolving credit facility with alternative arrangements prior to their expiration.

We believe that cash and cash equivalents on hand and cash from operations, together with our borrowing capacity under our credit facilities, will provide sufficient financial flexibility to meet seasonal working capital requirements, capital expenditures, debt service requirements and other obligations, cash dividends on common shares, share repurchases and additional growth opportunities for the foreseeable future. We believe that our credit profile should provide us with access to additional financing, if necessary, to fund growth opportunities that cannot be funded from existing sources.

Impact of New Accounting Standards

There are no recently issued accounting pronouncements that we have not yet adopted that are expected to have a material effect on our financial position, results of operations or cash flows.

Forward-Looking Statements

Some statements and disclosures in this document are forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan" or "continue." These forward-looking statements are based on our current plans and expectations and are subject to a number of risks and uncertainties that could significantly cause our plans and expectations, including actual results, to differ materially from the forward-looking statements. Risks and uncertainties that may affect our future results include, but are not limited to, adverse results from pending or future government investigations, lawsuits or private actions, the competitive environment, changes in government regulations, changing relationships with customers, payers, suppliers and strategic partners and other factors discussed in "Business," "Risk Factors," "Cautionary Factors That May Affect Future Results," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" in our 2010 Annual Report on Form 10-K and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk" in our 2011 Quarterly Reports on Form 10-Q and other items throughout the 2010 Form 10-K and our 2011 Quarterly Report on Form 10-Q and Current Report on Form 8-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

During the first quarter of 2011, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 11 to the interim consolidated financial statements for information regarding the status of legal proceedings involving the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the first quarter of 2011.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
January 1, 2011 – January 31, 2011				
Share Repurchase Program (A)	—	$ —	—	$ 1,000,050
Employee Transactions (B)	443	$ 54.72	N/A	N/A
February 1, 2011 – February 28, 2011				
Share Repurchase Program (A)	15,377,551	$ 54.30	15,377,551	$ 165,049
Employee Transactions (B)	272,566	$ 56.93	N/A	N/A
March 1, 2011 – March 31, 2011				
Share Repurchase Program (A)	—	$ —	—	$ 165,049
Employee Transactions (B)	61,464	$ 56.50	N/A	N/A
Total				
Share Repurchase Program (A)	15,377,551	$ 54.30	15,377,551	$ 165,049
Employee Transactions (B)	334,473	$ 56.85	N/A	N/A

(A) In January 2011, our Board of Directors authorized the Company to repurchase an additional $750 million of the Company's common stock, increasing the total available authorization at that time to $1 billion. Since the share repurchase program's inception in May 2003, our Board of Directors has authorized $4.5 billion of share repurchases of our common stock through March 31, 2011. The share repurchase authorization has no set expiration or termination date.

(B) Includes: (1) shares delivered or attested to in satisfaction of the exercise price and/or tax withholding obligations by holders of stock options (granted under the Company's Amended and Restated Employee Long-Term Incentive Plan and its Amended and Restated Non-Employee Director Long-Term Incentive Plan, collectively the "Stock Compensation Plans") who exercised options; (2) restricted common shares withheld (under the terms of grants under the Stock Compensation Plans) to offset tax withholding obligations that occur upon vesting and release of the restricted common shares; and (3) shares withheld (under the terms of grants under the Stock Compensation Plans) to offset tax withholding obligations that occur upon the delivery of common shares underlying restricted stock units and performance share units.

Item 6. Exhibits

Exhibits:

10.1	Confirmation between Quest Diagnostics Incorporated and Barclays Bank PLC acting through its Agent Barclays Capital, Inc., dated January 28, 2010.
10.2	Common Stock Purchase Agreement dated January 31, 2011 by and between Quest Diagnostics Incorporated and GlaxoSmithKline plc.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	dgx-20110331.xml
101.SCH	dgx-20110331.xsd
101.CAL	dgx-20110331_cal.xml
101.DEF	dgx-20110331_def.xml
101.LAB	dgx-20110331_lab.xml
101.PRE	dgx-20110331_pre.xml

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 9, 2011
Quest Diagnostics Incorporated

By /s/ Surya N. Mohapatra

Surya N. Mohapatra, Ph.D.
Chairman of the Board, President and
Chief Executive Officer

By /s/ Robert A. Hagemann

Robert A. Hagemann
Senior Vice President and
Chief Financial Officer

Exhibit 10.1

Barclays Bank PLC
5 The North Colonnade
Canary Wharf, London E14
4BB
Facsimile: +44(20)77736461
Telephone: +44 (20) 777 36810

c/o Barclays Capital Inc.
as Agent for Barclays Bank PLC
745 Seventh Ave
New York, NY 10019

DATE:	January 28, 2010
TO:	Quest Diagnostics Incorporated
Attention:	Robert F O'Keef, Vice President and Treasurer
Facsimile:	1-973-520-2037
Telephone:	1-973-520-2118
Email:	Robert.F.OKeef@questdiagnostics.com
FROM:	Barclays Capital Inc., acting as Agent for Barclays Bank PLC
TELEPHONE:	+1 212 412 4000

SUBJECT: Share Repurchase Transaction

The purpose of this letter agreement (this "**Confirmation**") is to confirm the terms and conditions of the Transaction entered into between Barclays Bank PLC ("**Barclays**"), through its agent Barclays Capital Inc. (the "**Agent**"), and Quest Diagnostics Incorporated ("**Counterpart**y") on the Trade Date specified below (the "**Transaction**"). This Confirmation constitutes a "**Confirmation**" as referred to in the Master Agreement specified below. **Barclays Bank PLC is not a member of the Securities Investor Protection Corporation ("SIPC"). Barclays is regulated by the Financial Services Authority.**

The definitions and provisions contained in the 2002 ISDA Equity Derivatives Definitions (the "**Equity Definitions**"), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Confirmation. In the event of any inconsistency between the Equity Definitions and this Confirmation, this Confirmation shall govern. For purposes of the Equity Definitions, this Transaction shall be deemed to be a Share Forward Transaction.

Each party is hereby advised, and each such party acknowledges, that the other party has engaged in, or refrained from engaging in, substantial financial transactions and has taken other material actions in reliance upon the parties' entry into the Transaction to which this Confirmation relates on the terms and conditions set forth below.

1. This Confirmation evidences a complete and binding agreement between Barclays and Counterparty as to the terms of the Transaction to which this Confirmation relates. This Confirmation shall supplement, form a part of, and be subject to, an agreement in the form of the ISDA 1992 Master Agreement (Multicurrency – Cross Border) (the "**Agreement**") as if Barclays and Counterparty had executed an agreement in such form (without any Schedule except for (i) the election of U.S. Dollars as the Termination Currency; (ii) the election that the "Cross Default" provisions of Section 5(a)(vi) shall apply to Counterparty and Barclays with a "Threshold Amount" of USD 150 million with respect to Counterparty and three percent of shareholders' equity with respect to Barclays, and with an amendment of Section 5(a)(vi) to (A) delete the phrase ", or becoming capable at such time of being declared," in the seventh line thereof and (B) add the following text at the end Section 5(a)(vi)(2): "provided, however, that an Event of Default shall not occur under either (1) or (2) above if the default, Event of Default or other similar event

or condition referred to in (1) or the failure to pay referred to in (2) is a failure to pay caused by an error or omission of an administrative or operational nature and funds were available to such party to enable it to make the relevant payment when due and such payment is in fact made on or before the third Local Business Day following receipt of written notice from the other party of such failure to pay;" and (iii) such other elections set forth in this Confirmation) on the Trade Date. In the event of any inconsistency between provisions of the Agreement and this Confirmation, this Confirmation will prevail for the purpose of the Transaction. The parties hereby agree that no Transaction other than the Transaction to which this Confirmation relates shall be governed by the Agreement.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

General Terms:

Trade Date:	January 28, 2010
Seller:	Barclays
Buyer:	Counterparty
Shares:	The common stock, 0.01 par value per share of Counterparty (Ticker symbol "DGX").
Prepayment:	Applicable
Variable Obligation	Applicable
Prepayment Amount:	As specified in Schedule A
Prepayment Date:	One Exchange Business Day following the Trade Date.
Exchange:	The New York Stock Exchange
Related Exchange(s):	NASDAQ Global Select Market, NASDAQ Global Market, International Securities Exchange and Chicago Board of Exchange.
Calculation Agent:	Barclays.

Valuation:

Trading Period:	The period of consecutive Scheduled Trading Days from and including the first Scheduled Trading Day following the Trade Date to and including the Maximum Maturity Date, as specified in Schedule A; *provided* that, Barclays may designate any Scheduled Trading Day on or after the Minimum Maturity Date, as specified in Schedule A, as the last Scheduled Trading Day of the Trading Period. Barclays shall notify Counterparty of any designation made pursuant to this provision on the Scheduled Trading Day immediately following such designated day.
Market Disruption Event:	Section 6.3(a) of the Equity Definitions shall be amended by deleting the words "at any time during the one hour period that ends at the relevant Valuation Time, Latest Exercise Time, Knock-in Valuation Time or Knock-out Valuation Time, as the case may be" and replacing them with the words "at any time during the regular trading session on the Exchange, without regard to after hours or any other trading outside of the regular trading session hours", by amending and restating clause (a)(iii) thereof in its entirety to read as follows: "(iii) an Early Closure that the Calculation Agent determines is material" and by adding the words " or (iv) a Regulatory Disruption" after clause (a)(iii) as restated above. Section 6.3(d) of the Equity Definitions is hereby amended by deleting the remainder of the provision following the term "Scheduled Closing Time" in the fourth line thereof.
Regulatory Disruption:	A "Regulatory Disruption" shall occur if Barclays determines in its reasonable discretion that it is appropriate in light of legal, regulatory or self-regulatory requirements or related policies or procedures for Barclays to refrain from all or any part of the market activity in which it would otherwise engage in connection with this Transaction.
Disrupted Day:	The definition of "Disrupted Day" in Section 6.4 of the Equity Definitions shall be amended by adding the following sentence after the first sentence: "A Scheduled Trading Day on which a Related Exchange fails to open during its regular trading session will not be a Disrupted Day if the Calculation Agent determines that such failure will not have a material impact on Barclays's ability to unwind any hedging transactions related to the Transaction".

Consequence of Disrupted Days:	Notwithstanding anything to the contrary in the Equity Definitions, to the extent that a Disrupted Day occurs during the Trading Period, the Calculation Agent may postpone the Maximum Maturity Date and the Minimum Maturity Date. If any Disrupted Day occurs during the Trading Period, the Calculation Agent shall determine whether (i) such Disrupted Day is a Disrupted Day in whole, in which case the 10b-18 VWAP for such Disrupted Day shall not be included for purposes of determining the Forward Price, or (ii) such Disrupted Day is a Disrupted Day only in part, in which case the 10b-18 VWAP for such Disrupted Day shall be determined by the Calculation Agent based on Rule 10b-18 eligible transactions in the Shares on such Disrupted Day effected before the relevant Market Disruption Event (if any) occurred and/or after the relevant Market Disruption Event (if any) ended, and the Forward Price shall be determined by the Calculation Agent as appropriate on the basis of the nature and duration of the relevant Market Disruption Event. Any day on which the Exchange is scheduled to close prior to its normal closing time shall be considered a Disrupted Day in whole.
Valuation Time:	Scheduled Closing Time; *provided* that if the principal trading session is extended, the Calculation Agent shall determine the Valuation Time in its reasonable discretion.
Valuation Date:	The Settlement Date.
Settlement Terms:	
Settlement Method Election:	Not Applicable; *provided* that if the Number of Shares to be Delivered is a negative number, Counterparty may elect Physical Settlement in lieu of Cash Settlement by written notice to Barclays at any time no later than 9:00 a.m. (New York City time) on the Scheduled Trading Day immediately following the earlier of (i) the Scheduled Trading Day on which Counterparty receives from Barclays a notice of designation of the last Scheduled Trading Day of the Trading Period and (ii) the originally scheduled Maximum Maturity Date as specified in Schedule A.
Physical Settlement:	Applicable if the Number of Shares to be Delivered is (1) a positive number, in which case it means that on the Settlement Date Barclays shall deliver to Counterparty the Number of Shares to be Delivered, or (2) a negative number and Counterparty makes the election pursuant to the proviso under "Settlement Method Election" above, in which case it means that Counterparty shall deliver to Barclays the absolute value of such number subject to paragraphs 5(g) and (i) below.
Cash Settlement:	Applicable if the Number of Shares to be Delivered is a negative number and Counterparty does not make the election above pursuant to the proviso under "Settlement Method Election" above, in which case it means that paragraph 5(h) below shall apply.
Settlement Currency:	USD

Forward Price:	The amount equal to (i) the arithmetic average of the 10b-18 VWAPs for all Exchange Business Days in the Trading Period (the "**Average 10b-18 VWAP**") *minus* (ii) the Discount, as specified in Schedule A and adjusted pursuant to provisions under "Modified Calculation Agent Adjustment" below.
10b-18 VWAP:	(A) For any Scheduled Trading Day that is not a Disrupted Day, the volume-weighted average price at which the Shares trade as reported in the composite transactions for all United States securities exchanges on which such Shares are traded (or, if applicable, the successor Exchange), excluding (i) trades that do not settle regular way, (ii) opening (regular way) reported trades in the consolidated system on such Scheduled Trading Day, (iii) trades that occur in the last ten minutes before the scheduled close of trading on the Exchange on such Scheduled Trading Day and ten minutes before the scheduled close of the primary trading in the market where the trade is effected, and (iv) trades on such Scheduled Trading Day that do not satisfy the requirements of Rule 10b-18(b)(3) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), as determined in good faith by the Calculation Agent, or (B) for any Scheduled Trading Day that is a Disrupted Day, an amount determined in good faith and in a commercially reasonable manner by the Calculation Agent as 10b-18 VWAP pursuant to "Consequence of Disrupted Days" above. Counterparty acknowledges that the Calculation Agent may refer to the Bloomberg Page "DGX <Equity> AQR SEC" (or any successor thereto) for any Scheduled Trading Day to determine the 10b-18 VWAP.
Number of Shares to be Delivered:	A number of Shares equal to the difference between (i) the Share Amount *minus* (ii) the Initial Shares; *provided* that a number of Shares less than a whole number shall be rounded upward.
Share Amount:	The quotient of the Prepayment Amount *divided by* the Forward Price.
Settlement Date:	One Exchange Business Day following the last Scheduled Trading Day during the Trading Period; *provided* that if Counterparty elects to deliver Free Shares pursuant to paragraph 5(g) below, then the Settlement Date shall be extended for so long as is reasonably necessary to allow Counterparty to satisfy, as promptly as practicable, the conditions set forth in paragraph 5(i) below.
Initial Shares:	As specified in Schedule A.
Initial Share Delivery:	Barclays shall deliver a number of Shares equal to the Initial Shares to Counterparty on the Initial Share Delivery Date in accordance with Section 9.4 of the Equity Definitions, with the Initial Share Delivery Date being deemed to be a "Settlement Date" for purpose of such Section 9.4.
Initial Share Delivery Date:	One Exchange Business Day following the Trade Date.
Adjustments:	
Method of Adjustment:	Calculation Agent Adjustment; *provided* that, notwithstanding anything to the contrary in Section 11.2(e) of the Equity

	Definitions or this Confirmation, neither an Extraordinary Dividend nor a repurchase of Shares by the Issuer or any of its subsidiaries shall constitute a "Potential Adjustment Event."
Extraordinary Events:	
New Shares:	Section 12.1(i) of the Equity Definitions is hereby amended by deleting the text in clause (i) in its entirety and replacing it with the phrase "publicly quoted, traded or listed on any of the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Select Market or the NASDAQ Global Market (or their respective successors)".
Share-for-Share:	The definition of "Share-for-Share" set forth in Section 12.1(f) of the Equity Definitions is hereby amended by the deletion of the parenthetical in clause (i) thereof.
Consequence of Merger Events:	
Share-for-Share:	Modified Calculation Agent Adjustment.
Share-for-Other:	Cancellation and Payment (Calculation Agent Determination).
Share-for-Combined:	Component Adjustment.
Consequence of Tender Offers:	
Tender Offer:	Applicable
Share-for-Share:	Modified Calculation Agent Adjustment.
Share-for-Other:	Modified Calculation Agent Adjustment.
Share-for-Combined:	Modified Calculation Agent Adjustment.
Modified Calculation Agent Adjustment:	The definition of "Modified Calculation Agent Adjustment" in Sections 12.2 and 12.3 of the Equity Definitions is hereby amended by deleting the stipulated parenthetical provision: "(including adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to this Transaction)" and replacing it with the following: "(provided that no adjustments shall be made to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to this Transaction, except that the Calculation Agent may adjust the Discount (but in no event to an amount less than zero) solely to account for the economic effect on Barclays' right to designate the last Scheduled Trading Day of the Trading Period of changes in the volatility of the Shares during the period from the Announcement Date to the Merger Date or Tender Offer Date, as the case may be)".
Announcement Date:	The definition of "Announcement Date" in Section 12.1 of the Equity Definitions shall be amended by (i) replacing the word "leads to the" in the third and the fifth lines thereof with the words ", if completed, would lead to a", (ii) replacing the words "voting shares" in the fifth line thereof with the word "Shares" and (iii) inserting the words "by any entity" after the word "announcement" in the third and the fifth lines thereof.
Announcement Event:	If an Announcement Event occurs, the Calculation Agent will determine the economic effect on the theoretical value of this Transaction of changes in the volatility of the Shares during

	the period from the Announcement Date to the Valuation Date. If such economic effect is material, the Calculation Agent will on the Valuation Date adjust the Discount (but in no event to an amount less than zero) solely to account for such economic effect. "**Announcement Event**" shall mean the occurrence of the Announcement Date of a Merger Event or Tender Offer.
Composition of Combined Consideration:	Not Applicable; *provided* that, notwithstanding Sections 12.5(b) and 12.1(f) of the Equity Definitions, to the extent that the composition of the consideration for the relevant Shares pursuant to a Tender Offer or Merger Event could be elected by an actual holder of the Shares, the Calculation Agent will determine such composition.
Nationalization, Insolvency or Delisting:	Cancellation and Payment (Calculation Agent Determination); *provided* that, in addition to the provisions of Section 12.6(a)(iii) of the Equity Definitions, it will also constitute a Delisting if the Exchange is located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Select Market or the NASDAQ Global Market (or their respective successors); if the Shares are immediately re-listed, re-traded or re-quoted on any such exchange or quotation system, such exchange or quotation system shall thereafter be deemed to be the Exchange.
Additional Disruption Events:	
Change in Law:	Applicable.
Failure to Deliver:	Not Applicable.
Insolvency Filing:	Applicable; *provided* that the definition of "Insolvency Filing" in Section 12.9 of the Equity Definitions shall be amended by deleting the clause "provided that proceedings instituted or petitions presented by creditors and not consented to by the Issuer shall not be deemed an Insolvency Filing" at the end of such definition and replacing it with the following: "; or it has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation by a creditor and such proceeding is not dismissed, discharged, stayed or restrained in each case within thirty (30) days of the institution or presentation thereof, in which event the Insolvency Filing shall be deemed to occur on such thirtieth day." Section 12.9(b)(i) of the Equity Definitions is hereby amended by adding the following sentence at the end: "If neither party elects to terminate the Transaction, the Calculation Agent may adjust the terms of the Transaction upon the occurrence of such an event pursuant to Modified Calculation Agent Adjustment (as if such event were a Tender Offer and the date of occurrence of the Insolvency Filing were the Announcement Date)."

Hedging Disruption:	Applicable; *provided* that, Section 12.9(a)(v) of the Equity Definitions is hereby amended by adding the phrase "for five or more successive Scheduled Trading Days" immediately following the word "efforts" in the second line thereof.
Loss of Stock Borrow:	Applicable; *provided* that (a) Sections 12.9(a)(vii) and 12.9(b)(iv) of the Equity Definitions are amended by deleting the words "at a rate equal to or less than the Maximum Stock Loan Rate" and replacing it with the words "at a Borrow Cost equal to or less than the Maximum Stock Loan Rate" and (b) Section 12.9(a)(vii) of the Equity Definitions is hereby amended by inserting the words "or enter into an economically equivalent transaction" after the first occurrence of the word "Shares".
Borrow Cost:	The cost to borrow the relevant Shares (or enter into an economically equivalent transaction) that would be incurred by a third party market participant borrowing such Shares or entering into such transaction, as determined by the Calculation Agent on the relevant date of determination. Such costs, in the case of a borrowing of Shares, shall include (a) the spread below FED-FUNDS that would be earned on collateral posted in connection with such borrowed Shares, net of any costs or fees, and (b) any stock loan borrow fee that would be payable for such Shares, expressed as fixed rate per annum.
Maximum Stock Loan Rate:	200 basis points.
Increased Cost of Stock Borrow:	Applicable; *provided* that (a) Section 12.9(a)(viii) of the Equity Definitions shall be amended by deleting "rate to borrow Shares" and replacing it with "Borrow Cost" and (b) Section 12.9(b)(v) of the Equity Definitions shall be amended by (i) adding the word "or" immediately before the phrase "(B)", (ii) deleting subsection (C) in its entirety, (iii) replacing "either party" in the penultimate sentence with "the Hedging Party", and (iv) replacing the word "rate" in clauses (X) and (Y) of the final sentence therein with the words "Borrow Cost".
Initial Stock Loan Rate:	25 basis points.
FED FUNDS:	"**FED FUNDS**" means, for any day, the rate set forth for such day opposite the caption "Federal funds", as such rate is displayed on the page "FedsOpen <Index> <GO>" on the BLOOMBERG Professional Service, or any successor page; *provided* that if no rate appears for any day on such page, the rate for the immediately preceding day for which a rate does so appear shall be used for such day.
Hedging Party:	Barclays or an affiliate of Barclays that is involved in the hedging of this Transaction for all applicable Additional Disruption Events.
Determining Party:	Barclays for all applicable Extraordinary Events.
Acknowledgments:	
Non-Reliance:	Applicable.
Agreements and Acknowledgments	

Regarding Hedging Activities:	Applicable.
Additional Acknowledgments:	Applicable.

3. **Mutual Representations, Warranties and Agreements.**

Each of Barclays and Counterparty represents and warrants to, and agrees with, the other party that:

(a) **Commodity Exchange Act.** It is an "eligible contract participant" within the meaning of Section 1a(12) of the U.S. Commodity Exchange Act, as amended (the "**CEA**"). The Transaction has been subject to individual negotiation by the parties. The Transaction has not been executed or traded on a "trading facility" as defined in Section 1a(33) of the CEA; and

(b) **Securities Act.** It is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act, or an "accredited investor" as defined in Section 2(a)(15)(ii) of the Securities Act.

4. **Representations, Warranties and Agreements of Counterparty.**

In addition to the representations and warranties in the Agreement and those contained elsewhere herein, Counterparty further represents, warrants and agrees that:

(a) if Counterparty purchases any Shares pursuant to this Transaction, such purchase(s) will comply with (i) all laws and regulations applicable to it and (ii) all contractual obligations of Counterparty;

(b) Counterparty shall as promptly as practicable provide written notice to Barclays upon obtaining knowledge of the occurrence of any event that constitutes an Event of Default, a Potential Event of Default, a Potential Adjustment Event, a Merger Event or any other Extraordinary Event; *provided*, *however*, that should Counterparty be in possession of material non-public information regarding Counterparty, Counterparty shall not communicate such information to Barclays;

(c) (A) Counterparty is acting for its own account, and it has made its own independent decisions to enter into the Transaction and as to whether the Transaction is appropriate or proper for it based upon its own judgment and upon advice from such advisers as it has deemed necessary, (B) Counterparty is not relying on any communication (written or oral) of Barclays or any of its affiliates as investment advice or as a recommendation to enter into the Transaction (it being understood that information and explanations related to the terms and conditions of the Transaction shall not be considered investment advice or a recommendation to enter into the Transaction) and (C) no communication (written or oral) received from Barclays or any of its affiliates shall be deemed to be an assurance or guarantee as to the expected results of the Transaction;

(d) Counterparty has not and will not directly or indirectly violate any applicable law (including, without limitation, the Securities Act and the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) in connection with the Transaction;

(e) Counterparty has (and at all times during the Transaction shall have) the capacity and authority to purchase Shares in an amount equal to the Share Amount (determined as if the Forward Price were $28 per Share and assuming that the aggregate purchase price does not exceed the Prepayment Amount) and has not entered into the Transaction with the intent to avoid any regulatory filings;

(f) Counterparty's financial condition is such that it has no need for liquidity with respect to its investment in the Transaction and no need to dispose of any portion thereof to satisfy any existing or contemplated undertaking or indebtedness;

(g) Counterparty's investments in and liabilities in respect of the Transaction, which it understands are not readily marketable, are not disproportionate to its net worth, and Counterparty is able to bear any loss in connection with the Transaction, including the loss of its entire investment in the Transaction;

(h) Counterparty is not as of the Trade Date (taking into account the effect of entering into the Transaction) "insolvent" (as such term is defined in Section 101(32) of the U.S. Bankruptcy Code (Title 11 of the United States Code) (the "**Bankruptcy Code**")) and Counterparty would, as of such date, be able to purchase a number of Shares equal to the Share Amount (determined as if the Forward Price were $28 per Share and assuming that the aggregate purchase price does not exceed the Prepayment Amount) in compliance with the laws of the jurisdiction of Counterparty's incorporation or organization;

(i) the Transaction, and any repurchase of the Shares by Counterparty in connection with the Transaction, is pursuant to a publicly announced Share repurchase program that has been approved by Counterparty's board of directors (including engaging in related derivative transactions) and any such repurchase has been, or shall when so required be, publicly disclosed in its periodic filings under the Exchange Act and its financial statements and notes thereto;

(j) Counterparty understands, agrees and acknowledges that Barclays has no obligation or intention to register the Transaction under the Securities Act, any state securities law or other applicable federal securities law;

(k) each of Counterparty's filings and reports under the Securities Act, the Exchange Act, or other applicable securities laws that are required to be filed or furnished have been filed or furnished and, as of the Trade Date, such filings or reports when considered as a whole (with the more recent such filings or reports deemed to supersede inconsistent statements contained in any earlier such filings or reports) do not contain any misstatement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

(l) Counterparty is not, and after giving effect to the transactions contemplated hereby will not be, required to register as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended;

(m) Counterparty understands, agrees and acknowledges that no obligations of Barclays to it hereunder shall be entitled to the benefit of deposit insurance and that such obligations shall not be guaranteed by any affiliate of Barclays or any governmental agency;

(n) without limiting the generality of Section 13.1 of the Equity Definitions, Counterparty acknowledges that Barclays is not making any representations or warranties with respect to the treatment of the Transaction under FASB Statements 128, 133, as amended, 149 or 150, EITF Issue No. 00-19, 01-6, 03-6 or 07-5 (or any successor issue statements), under FASB's Liabilities & Equity Project or under FASB Staff Position or any other accounting guidance; and

(o) Counterparty is not entering into the Transaction for the purpose of (i) creating actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for the Shares) or (ii) raising or depressing or otherwise manipulating the price of the Shares (or any security convertible into or exchangeable for the Shares) or otherwise in violation of the Exchange Act.

5. **Other Provisions:**

(a) **Method of Delivery.** Whenever delivery of funds or other assets is required hereunder by or to Counterparty, such delivery shall be effected through Agent. In addition, all notices, demands and communications of any kind relating to the Transaction between Barclays and Counterparty shall be transmitted exclusively through Agent, and Agent agrees to transmit immediately any such notices, demands, communications, funds or other assets to the intended recipient.

(b) **Rule 10b-18.**

(i) Barclays covenants and agrees that (A) it shall effect all purchases of Shares in connection with this Transaction during the period starting on the first day of the Trading Period and ending on the Minimum Maturity Date (other than purchases made by Barclays as part of its dynamic adjustment of its hedge of the options embedded in this Transaction or that Barclays reasonably believes are attributable solely to Barclays during such period) and the Cash Settlement Pricing Period (as defined below), if any, and any purchases executed as a result of the occurrence of an Additional Termination Event or termination of the Transaction pursuant to Sections 12.2, 12.3, 12.6, 12.7 or 12.9 of the Equity Definitions) in a manner that Barclays reasonably believes, based on the representations, warranties and agreements of Counterparty set forth herein, would comply with the limitations set forth in clauses (b)(1), (b)(2), (b)(3), (b)(4) and (c) of Rule 10b-18 under the Securities Exchange Act of 1934 ("**Rule 10b-18**"), as if Barclays were Counterparty or an "affiliated purchaser" (as such term is defined in Rule 10b-18) of Counterparty and such rule were applicable to such purchases and (B) without limitation of the foregoing clause (A), it shall effect all purchases of Shares in connection with this Transaction in a manner that Barclays, in good faith, believes is in compliance with applicable legal and regulatory requirements.

(ii) Except as disclosed to Barclays in writing prior to the Trade Date, Counterparty represents and warrants to Barclays that it has not made any purchases of blocks by or for itself or any of its "affiliated purchasers" pursuant to the one block purchase per week exception in Rule 10b-18(b)(4) under the Exchange Act during each of the four calendar weeks preceding such date ("**Rule 10b-18 purchase**," "**blocks**" and "a**ffiliated purchaser**", each as defined in Rule 10b-18).

(iii) Counterparty agrees that if, on any day during the Trading Period or the Cash Settlement Pricing Period, if any, Counterparty makes any public announcement (as defined in Rule 165(f) under the Securities Act) of any Merger Transaction, Counterparty shall promptly (but in any event prior to the next opening of the regular trading session on the Exchange in the case of such an announcement not made during such a regular trading session) notify Barclays following any such announcement that such announcement has been made; and (C) shall promptly (but in any event prior to the next opening of the regular trading session on the Exchange) provide Barclays with written notice specifying (i) Counterparty's average daily Rule 10b-18 Purchases (as defined in Rule 10b-18) during the three full calendar months immediately preceding the announcement date that were not effected through Barclays or its affiliates and (ii) the number of Shares purchased pursuant to the proviso in Rule 10b-18(b)(4) under the Exchange Act for the three full calendar months preceding the announcement date. Such written notice shall be deemed to be a certification by Counterparty to Barclays that such information is true and correct. In addition, Counterparty shall promptly notify Barclays of the earlier to occur of the completion of such transaction and the completion of the vote by target shareholders. "**Merger Transaction**" means any merger, acquisition or similar transaction involving a recapitalization as contemplated by Rule 10b-18(a)(13)(iv) under the Exchange Act.

(c) **Rule 10b5-1.** It is the intent of the parties that this Transaction comply with the requirements of Rule 10b5-1(c)(1)(i)(B) of the Exchange Act ("**Rule 10b5-1**"), and the parties agree that this

Confirmation shall be interpreted to comply with the requirements of Rule 10b5-1(c), and Counterparty shall take no action that results in this Transaction not so complying with such requirements. Without limiting the generality of the preceding sentence, Counterparty acknowledges and agrees that (A) Counterparty does not have, and shall not attempt to exercise, any influence over how, when or whether Barclays effects any purchases in connection with this Transaction, (B) during the Trading Period and the Cash Settlement Pricing Period, if any, Counterparty shall not, and shall not authorize any of its officers or employees to, communicate, directly or indirectly, any information regarding Counterparty or the Shares to employees of Barclays or its affiliates as named in the Appendix A, (C) Counterparty is entering into this Transaction in good faith and not as part of a plan or scheme to evade compliance with federal securities laws including, without limitation, Rule 10b-5 and (D) Counterparty will not alter or deviate from this Confirmation or enter into or alter a corresponding hedging transaction with respect to the Shares. Counterparty also acknowledges and agrees that any amendment, modification, waiver or termination of this Confirmation must be effected in accordance with the requirements for the amendment or termination of a "plan" as defined in Rule 10b5-1(c). Without limiting the generality of the foregoing, any such amendment, modification, waiver or termination shall be made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 and no such amendment, modification or waiver shall be made at any time at which Counterparty is aware of any material non-public information regarding Counterparty or the Shares.

(d) **Company Purchases**. Without the prior written consent of Barclays (which consent Barclays shall not unreasonably withhold or delay), Counterparty shall not purchase, and shall cause its "affiliates" and "affiliated purchasers" (each as defined in Rule 10b-18) not to directly or indirectly (including, without limitation, by means of any cash-settled or other derivative instrument) purchase, offer to purchase, place any bid or limit order that would effect a purchase of, or commence any tender offer relating to, any Shares (or an equivalent interest, including a unit of beneficial interest in a trust or limited partnership or a depository share) or any security convertible into or exchangeable or exercisable for Shares during the Trading Period and the Cash Settlement Pricing Period, if any; *provided* that this paragraph 5(d) shall not apply to any of the following: (A) privately negotiated purchases of Shares from GlaxoSmithKline plc or any of its affiliates holding such Shares with the prior consent of Barclays (which consent Barclays shall not unreasonably withhold or delay); (B) purchases of Shares pursuant to exercises of stock options granted to former or current employees, officers, directors, or other affiliates of Counterparty, including the withholding and/or purchase of Shares from holders of such options to satisfy payment of the option exercise price and/or satisfy tax withholding requirements in connection with the exercise of such options; (C) purchases of Shares from holders of performance shares or units or restricted shares or units to satisfy tax withholding requirements in connection with vesting; (D) the conversion or exchange by holders of any convertible or exchangeable securities of the Counterparty previously issued; (E) purchases of Shares effected by or for a plan by an agent independent of Counterparty that satisfy the requirements of Rule 10b-18(a)(13)(ii); (F) purchases which are not solicited by or on behalf of Counterparty, its "affiliates" or "affiliated purchasers" (each as defined in Rule 10b-18); or (G) purchases executed by Barclays or an Affiliate of Barclays.

(e) **Regulation M.** Counterparty is not on the Trade Date engaged in a "distribution", as such term is used in Regulation M under the Exchange Act ("**Regulation M**"), of any Shares or any securities for which the Shares are a "reference security" (as defined in Regulation M), other than a distribution meeting the requirements of an exception set forth in Rules 102(b) or 102(c) of Regulation M. Counterparty shall not, until the Settlement Date or Cash Payment Settlement Date, as applicable, engage in any such distribution.

(f) **Additional Termination Event.** Notwithstanding any other provision hereof, an "Additional Termination Event" shall occur and Counterparty shall be the sole Affected Party pursuant to such Additional Termination Event if on any day occurring after the Trade Date and on or prior to the last Scheduled Trading Day in the Trading Period Counterparty declares a distribution, issue or dividend to existing holders of the Shares with an ex-dividend date on or prior to the Valuation Date of (i) an extraordinary cash dividend, (ii) a regular quarterly dividend in an amount greater than the Regular Dividend as specified in Schedule A, (iii) securities or share capital of another issuer acquired or owned (directly or indirectly) by Counterparty as a result of a spin-off or other similar transaction or (iv) any other type of securities (other than Shares, which may constitute a Potential Adjustment Event), rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by Barclays.

(g) **Physical Settlement by Counterparty.** If Physical Settlement applies pursuant to (2) under "Physical Settlement" above, Counterparty shall deliver, at its election, either (i) a number of Free Shares equal to the absolute value of the Number of Shares to be Delivered, OR (ii) a number of Restricted Shares equal to the product of (A) the absolute value of the Number of Shares to be Delivered multiplied by (B) 106%. "Free Shares" shall mean Shares that are fully registered, freely tradable and free and clear of any lien, charge, claim or other encumbrance and delivered pursuant to paragraph 5(i) below. "Restricted Shares" shall mean Shares that are not Free Shares. "**Physical Settlement Price**" shall mean the closing price per Share as quoted by the Exchange at the Valuation Time on the last Scheduled Trading Day of the Trading Period. Notwithstanding Section 9.11 of the Equity Definitions, the parties acknowledge that the Restricted Shares have not been registered pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "**Securities Act**") or any state securities laws ("**Blue Sky Laws**") and cannot be freely sold, transferred, pledged or otherwise disposed of without registration under the Securities Act or under applicable Blue Sky Laws unless such sale, transfer, pledge or other disposition is made in a transaction exempt from or not subject to registration thereunder.

(h) **Cash Settlement by Counterparty.** If Cash Settlement applies, Counterparty shall pay to Barclays on each Cash Settlement Date an amount in cash equal to the Cash Settlement Amount for such Cash Settlement Date. "**Cash Settlement Dates**" shall mean three Currency Business Days immediately following each Exchange Business Day on which Barclays delivers to Counterparty a Hedge Repurchase Notice. "**Cash Settlement Amount**" shall mean, with respect to each Cash Settlement Date, the product of (i) the number of Hedge Repurchase Shares, as specified in the applicable Hedge Repurchase Notice, *multiplied* by (ii) the volume weighted average price at which Barclays purchased such Shares on the Scheduled Trading Day related to such Cash Settlement Date. "**Cash Settlement Pricing Period**" shall mean the period commencing on the Scheduled Trading Day immediately following the last Scheduled Trading Day of the Trading Period and ending on the Exchange Business Day on which, subject to applicable regulatory requirements and market conditions, Barclays completes in a reasonably timely manner the purchase of a number of shares equal to the absolute value of the Number of Shares to be Delivered (each such Share, a "**Hedge Repurchase Share**"). With respect to each Scheduled Trading Day during the Cash Settlement Pricing Period, Barclays shall deliver a notice (each such notice, a "**Hedge Repurchase Notice**") to the Counterparty of the number of Hedge Repurchase Shares purchased by Barclays on such Scheduled Trading Day.

(i) **Share Delivery Conditions**. If Physical Settlement by Counterparty applies, Counterparty may deliver Free Shares in respect of its settlement obligations only if the following conditions have been satisfied (the "**Registration Provisions**"): (i) a registration statement ("**Registration Statement**") (which may be a shelf registration statement filed pursuant to Rule 415 under the Securities Act of 1933, as amended) covering public resale by Barclays (or an affiliate thereof) of any Shares delivered by Counterparty to Barclays under such Physical Settlement by Counterparty ("**Settlement Shares**") by Barclays shall have been filed with, and declared effective by, the Securities and Exchange Commission (the "**SEC**") no later than one Scheduled Trading Day prior to the Settlement Date and such Registration Statement continues to be in effect at all times to and including the date that Barclays or its affiliate(s) has fully and finally sold any Settlement Shares hereunder, (ii) the contents of such registration statement and of any prospectus supplement to the prospectus included therein (including, without limitation, any sections describing the plan of distribution) shall be reasonably satisfactory to Barclays, (iii) Barclays shall have been afforded a reasonable opportunity to conduct a due diligence investigation with respect to Counterparty customary in scope for transactions pursuant to which Barclays (or an affiliate thereof) acts as an underwriter of equity securities and the results of such investigation are satisfactory to Barclays, in its discretion, and (iv) as of the Settlement Date, an agreement between Barclays and Counterparty of reasonable and customary underwriting terms including but not limited to indemnification and contribution and due diligence (the "**Underwriting Agreement**") shall have been entered into with Barclays in connection with the public resale of the Settlement Shares by Barclays (or an affiliate thereof). Notwithstanding the foregoing, if Counterparty elects for Physical Settlement by Counterparty to apply and Counterparty delivers Restricted Shares in respect of its settlement obligation, Barclays shall attempt to sell the Settlement Shares, if any, pursuant to an exemption from registration under the Securities Act by soliciting bids from interested parties in a manner exempt from registration.

Counterparty agrees that any Registration Statement it files for purposes of Physical Settlement by Counterparty pursuant to the provisions above, at the time the same becomes effective, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein to make the statements therein not misleading. Counterparty represents that any prospectus delivered to Barclays in connection with sales made under the Registration Statement (as such prospectus may be supplemented from time to time) will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(j) **Transfer or Assignment.**

Counterparty may not transfer or assign any of its rights or obligations under the Transaction without the prior written consent of Barclays. Notwithstanding any provision of the Agreement to the contrary, Barclays may, subject to (A) the following conditions:

(i) Counterparty will not be required to pay to the transferee an amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) of the Agreement (except in respect of interest under Section 2(e), 6(d)(ii), or 6(e)) greater than the amount in respect of which Counterparty would have been required to pay to Barclays in the absence of such transfer;

(ii) Counterparty will not receive a payment from which an amount has been withheld or deducted, on account of a Tax under Section 2(d)(i) (except in respect of interest under Section 2(e), 6(d)(ii), or 6(e) of the Agreement), in excess of that which Barclays would have been required to so withhold or deduct in the absence of such transfer, unless the transferee would be required to make additional payments pursuant to Section 2(d)(i)(4) of the Agreement corresponding to such withholding or deduction;

(iii) It is not unlawful for either party to perform any obligation under the Agreement or the Transaction as a result of such transfer; and

(iv) An Event of Default or Termination Event does not occur as a result of such transfer;

provided that with respect to the results described in clauses (i) and (ii) above, Barclays will cause the transferee to make, and Counterparty will make, such reasonable Payer Tax Representations and Payee Tax Representations as may be mutually agreed upon by the transferee and Counterparty in order to permit such parties to determine that such results will not occur upon or after the transfer; and

(B) applicable law, freely transfer and assign all of its rights and obligations under the Transaction without the consent of Counterparty to any affiliate of Barclays whose obligations hereunder are guaranteed by Barclays.

Notwithstanding any other provision in this Confirmation to the contrary requiring or allowing Barclays to purchase, sell, receive or deliver any Shares or other securities to or from Counterparty, Barclays may designate any of its Affiliates to purchase, sell, receive or deliver Shares or other securities and otherwise to perform Barclays' obligations in respect of the Transaction. Barclays shall be discharged of its obligations to Counterparty only to the extent of any such performance such Affiliate.

(k) **Role of Agent.** Each of Barclays and Counterparty acknowledges to and agrees with the other party hereto and to and with the Agent that (i) the Agent is acting as agent for Barclays under the Transaction pursuant to instructions from such party, (ii) the Agent is not a principal or party to the Transaction, and may transfer its rights and obligations with respect to the Transaction to another entity registered as a broker with the Securities and Exchange Commission, (iii) the Agent shall have no responsibility, obligation or liability, by way of issuance, guaranty, endorsement or otherwise in any manner with respect to the performance of either party under the Transaction, (iv) Barclays and the Agent have not given, and Counterparty is not relying (for purposes of making any investment decision or otherwise) upon, any statements, opinions or representations (whether written or oral) of Barclays or the Agent, other than the representations expressly set forth in this Confirmation or the Agreement, and (v) each party agrees to proceed solely against the other party, and not the Agent, to collect or recover any money or securities owed to it in connection with the Transaction. Each party hereto acknowledges and agrees that the Agent is an intended third party beneficiary hereunder with respect to this paragraph 5(j). Counterparty acknowledges that the Agent is an affiliate of Barclays.

(l) **Regulatory Provisions.** The time of dealing for the Transaction will be confirmed by Barclays upon written request by Counterparty. The Agent will furnish to Counterparty upon written request a statement as to the source and amount of any remuneration received or to be received by the Agent in connection with a Transaction.

(m) **Netting and Setoff.** Obligations under the Transaction shall not be netted, recouped or set off (including pursuant to Section 6 of the Agreement) against any other obligations of the parties, whether arising under the Agreement, this Confirmation, under any other agreement between the parties hereto, by operation of law or otherwise, and no other obligations of the parties shall be netted, recouped or set off (including pursuant to Section 6 of the Agreement) against obligations under the Transaction, whether arising under the Agreement, this Confirmation, under any other agreement between the parties hereto, by operation of law or otherwise, and each party hereby waives any such right of setoff, netting or recoupment; *provided* that both parties agree that subparagraph (ii) of Section 2(c) of the Agreement shall apply to the Transaction, except that upon the occurrence of an Event of Default or Termination Event with respect to a party who is the Defaulting Party or the Affected Party ("**X**"), the other party ("**Y**") will have the right (but not be obliged) without prior notice to X or any other person to set-off or apply any obligation of X under the Transaction owed to Y (or any Affiliate of Y) (whether or not matured or contingent and whether or not arising under the Agreement, and regardless of the currency, place of payment or booking office of the obligation) against any obligation of Y (or any Affiliate of Y) under an Equity Contract owed to X (whether or not matured or contingent and whether or not arising under the Agreement, and regardless of the currency, place of payment or booking office of the obligation). Y will give notice to the other party of any set-off effected under this paragraph. "**Equity Contract**" shall mean for purposes of this paragraph any transaction relating to Shares between X and Y (or any Affiliate of Y) that qualifies as equity' under applicable accounting rules. Amounts (or the relevant portion of such amounts) subject to set-off may be converted by Y into the Termination Currency at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency. If any obligation is unascertained, Y may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained. Nothing in this section shall be effective to create a charge or other security interest.

(n) **Staggered Settlement.** Barclays may, by notice to Counterparty on or prior to any Settlement Date (a "**Nominal Settlement Date**"), elect to deliver any Shares deliverable on such Nominal Settlement Date on two or more dates (each, a "**Staggered Settlement Date**") or at two or more times on the Nominal Settlement Date as follows: (i) in such notice, Barclays will specify to Counterparty the related Staggered Settlement Dates (each of which will be on or prior to such Nominal Settlement Date) or delivery times and how it will allocate the Shares it is required to deliver under the applicable settlement method above among the Staggered Settlement Dates or delivery times; and (ii) the aggregate number of Shares that Barclays will deliver to Counterparty hereunder on all such Staggered Settlement Dates and delivery times will equal the number of Shares that Barclays would otherwise be required to deliver on such Nominal Settlement Date.

(o) **Alternative Calculations and Counterparty Payment on Early Termination and on Certain Extraordinary Events.** If Barclays owes Counterparty or if Counterparty owes Barclays any amount in connection with the Transaction (i) pursuant to Sections 12.2, 12.3, 12.6, 12.7 or 12.9 of the Equity Definitions or (ii) pursuant to Section 6(d)(ii) of the Agreement (a "**Payment Obligation**"), Counterparty shall have the right, in its sole discretion, to satisfy or to require Barclays to satisfy, as the case may be, any such Payment Obligation by delivery of Termination Delivery Units (as defined below) by giving irrevocable telephonic notice to Barclays, confirmed in writing within one Scheduled Trading Day, no later than noon New York time on the Scheduled Trading Day immediately following the receipt of notice that an Early Termination Date has occurred or that the Transaction has been cancelled or terminated, as applicable, where such notice to Barclays shall include a representation and warranty from Counterparty that it is not, as of the date of the telephonic notice and the date of such written notice, aware of any material non-public information concerning itself or the Shares (where "material" shall have the meaning set forth in paragraph 5(p) below) ("**Notice of Counterparty Termination Delivery**"); *provided* that if Counterparty does not elect to require Barclays to satisfy its Payment Obligation by delivery of Termination Delivery Units, Barclays shall have the right (without regard to the exceptions set forth in clauses (i) and (ii) above), in its sole discretion, to elect to satisfy its Payment Obligation by delivery of Termination Delivery Units, notwithstanding Counterparty's failure to elect or election to the contrary; and *provided further* that Counterparty shall not have the right to so elect (but, for the avoidance of doubt, Barclays shall have the right to so elect) in the event of (i) an Insolvency, a Nationalization or a merger event, in each case, in which the consideration or proceeds to be paid to holders of Shares consists solely of cash or (ii) an Event of Default in which Counterparty is the Defaulting Party or a Termination Event in which Counterparty is the Affected Party, which Event of Default or Termination Event resulted from an event or events within Counterparty's control. Within a commercially reasonable period of time following receipt of a Notice of Counterparty Termination Delivery, Barclays shall deliver to Counterparty or Counterparty shall deliver to Barclays, as the case may be, a number of Termination Delivery Units having a fair market value (net of any brokerage and underwriting commissions and fees, including any customary private placement fees) equal to the amount of such Payment Obligation (such number of Termination Delivery Units to be delivered to be determined by the Calculation Agent as the number of whole Termination Delivery Units that could be sold over a commercially reasonable period of time to generate proceeds equal to the cash equivalent of such payment obligation). If the provisions set forth in this paragraph are applicable, the provisions of Sections 9.8, 9.9, 9.10, 9.11 (modified as described above) and 9.12 of the Equity Definitions shall be applicable, except that all references to "Shares" shall be read as references to "Termination Delivery Units." "**Termination Delivery Units**" means in the case of a Termination Event, Event of Default or Delisting, one Share or, in the case of Nationalization, Insolvency, Tender Offer or Merger Event, a unit consisting of the number or amount of each type of property received by a holder of one Share (without consideration of any requirement to pay cash or other consideration in lieu of fractional amounts of any securities) in such Nationalization, Insolvency, Tender Offer or Merger Event; *provided* that if such Nationalization, Insolvency, Tender Offer or Merger Event involves a choice of consideration to be received by holders, such holder shall be deemed to have elected to receive the maximum possible amount of cash.

(p) **No Material Non-Public Information.** On the Trade Date, Counterparty represents and warrants to Barclays that it is not aware of any material non-public information concerning itself or the Shares. "**Material**" information for these purposes is any information to which an investor would reasonably attach importance in reaching a decision to buy, sell or hold Shares.

(q) **Maximum Number of Shares.** Notwithstanding any provision of this Confirmation, the Agreement or the Equity Definitions to the contrary, in no event shall the aggregate number of Shares that Counterparty shall be obligated to deliver in connection with this Transaction exceed 5 million Shares, as such number may be proportionately adjusted by the Calculation Agent to reflect stock splits or similar events.

(r) **Tax Disclosure.** Notwithstanding anything to the contrary herein, in the Equity Definitions or in the Agreement, and notwithstanding any express or implied claims of exclusivity or proprietary rights, the parties (and each of their employees, representatives or other agents) are authorized to disclose to any and all persons, beginning immediately upon commencement of their discussions and without limitation of any kind, the tax treatment and tax structure of the Transaction, and all materials of any kind (including opinions or other tax analyses) that are provided by either party to the other relating to such tax treatment and tax structure.

(s) **Status of Claims in Bankruptcy.** Barclays acknowledges and agrees that this Confirmation is not intended to convey to Barclays rights with respect to the Transaction that are senior to the claims of common stockholders in any U.S. bankruptcy proceedings of Counterparty; provided that nothing herein shall limit or shall be deemed to limit Barclays' right to pursue remedies in the event of a breach by Counterparty of its obligations and agreements with respect to the Transaction; provided, further, that nothing herein shall limit or shall be deemed to limit Barclays' rights in respect of any transactions other than the Transaction.

(t) **No Collateral**. Notwithstanding any provision of this Confirmation, the Agreement, Equity Definitions or any other agreement between the parties to the contrary, the obligations of Counterparty under the Transaction are not secured by any collateral.

(u) **Delivery of Cash**. Notwithstanding any provision of this Confirmation, the Agreement, Equity Definitions or any other agreement between the parties to the contrary, nothing in this Confirmation shall be interpreted or given effect so as to require Counterparty to deliver cash, except in circumstances where such requirement is permitted for classification of the Transaction as equity under EITF 00-19.

(v) **Securities Contract; Swap Agreement.** The parties hereto agree and acknowledge that Barclays is a "financial institution," "swap participant" and "financial participant" within the meaning of Sections 101(22), 101(53C) and 101(22A) of the Bankruptcy Code. The parties hereto further agree and acknowledge (A) that this Confirmation is (i) a "securities contract," as such term is defined in Section 741(7) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a "termination value," "payment amount" or "other transfer obligation" within the meaning of Section 362 of the Bankruptcy Code and a "settlement payment" or a "transfer" within the meaning of Section 546 of the Bankruptcy Code, and (ii) a "swap agreement," as such term is defined in Section 101(53B) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a "termination value," a "payment amount" or "other transfer obligation" within the meaning of Section 362 of the Bankruptcy Code and a "transfer" within the meaning of Section 546 of the Bankruptcy Code, and (B) that Barclays is entitled to the protections afforded by, among other sections, Section 362(b)(6), 362(b)(17), 362(b)(27), 362(o), 546(e), 546(g), 546(j), 548(d)(2), 555, 560 and 561 of the Bankruptcy Code.

(w) **Payments on Early Termination**. The parties hereto agree that for the Transaction, for the purposes of Section 6(e) of the Agreement, the Agreement shall be deemed to have been amended to incorporate the modifications set out in the ISDA Close-out Amount Protocol, as published on February 27, 2009 by the International Swaps and Derivatives Association, Inc.

(x) **Governing Law.** The law of the State of New York (without reference to choice of law doctrine).

(w) **Waiver of Jury Trial.** EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR PROCEEDING RELATING TO THE TRANSACTION. EACH PARTY (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF SUCH A SUIT, ACTION OR PROCEEDING, SEEK TO ENFORCE THE FOREGOING WAIVER AND (II) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO ENTER INTO THE TRANSACTION, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS PROVIDED HEREIN.

6. **Account Details:**

(a) Account for payments to Counterparty:

Quest Diagnostics Incorporated
Bank: Bank of New York
ABA: 021000018
Acct Name: Quest Diagnostics Incorporated

Account for delivery of Shares to Counterparty:
Quest Diagnostics Incorporated
Transfer Agent: Computershare
Acct No.: T0000000019

(b) Account for payments to Barclays:

Bank: Barclays Bank plc NY
ABA# 026 00 2574
BIC: BARCUS33
Acct: 50038524
Beneficiary: BARCGB33
Ref: Barclays Bank plc London Equity Derivatives

7. **Offices:**
The Office of Counterparty for the Transaction is: Inapplicable, Counterparty is not a Multibranch Party.

The Office of Barclays for the Transaction is: Inapplicable, Barclays is not a Multibranch Party.

8. **Notices:**
For purposes of this Confirmation:

(a) Address for notices or communications to Counterparty:

Quest Diagnostics Incorporated
3 Giralda Farms
Madison, NJ 07940
Attention: Tracy Cinco-Abela

Telephone No.: 973-520-2746
Facsimile No.: 973-520-2037

(b) Address for notices or communications to Barclays:

Barclays Bank PLC
c/o Barclays Capital Inc.
745 Seventh Ave.
New York, NY 10019
Attn: Paul Robinson
Telephone: (+1) 212-526-0111
Facsimile: (+1) 917-522-0458

This Confirmation may be executed in several counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

Counterparty hereby agrees to check this Confirmation and to confirm that the foregoing correctly sets forth the terms of the Transaction by signing in the space provided below and returning to Barclays a facsimile of the fully-executed Confirmation to Barclays at (+1) 917-522-0458. Originals shall be provided for your execution upon your request.

Very truly yours,

BARCLAYS CAPITAL INC.,
acting solely as Agent in connection with this Transaction

By: /s/ Brian C. Spencer

Name: Brian C. Spencer
Title: Authorized Signatory

Accepted and confirmed as of the Trade Date:

QUEST DIAGNOSTICS INCORPORATED

By: /s/ Robert F. O'Keef

Robert F. O'Keef
Name: Robert F. O'Keef
Title: Vice President and Treasurer

SCHEDULE A

For the purposes of the Transaction, the following terms shall have the following values/meanings:

1. Prepayment Amount:	USD 250 million
2. Maximum Maturity Date:	March 30, 2010
3. Minimum Maturity Date:	February 25, 2010
4. Discount:	USD 0.4484
5. Initial Shares:	4,460,304
6. Regular Dividend:	USD 0.1 per Share per quarter.

APPENDIX A

Kevin Murphy

Arturo Ortiz de Zevallos

Omar Gzouli

Michael Hosana

Exhibit 10.2

QUEST DIAGNOSTICS INCORPORATED
Three Giralda Farms
Madison, New Jersey

January 31, 2011

Mr. Peter K. Hopkins
GlaxoSmithKline plc.
via Email

Dear Mr. Hopkins:

We understand you intend to sell approximately 30.8 million shares of your Quest Diagnostics Incorporated common stock. As discussed, we are willing to facilitate an orderly sale by purchasing a portion of these shares from you directly. Specifically, we are prepared to purchase 15,377,551 shares from you on the terms outlined in the attached term sheet.

Sincerely,

/s/ Michael G. Lukas

Michael G. Lukas
Vice President, Finance

AGREED AND ACCEPTED

GLAXOSMITHKLINE PLC

/s/ P.K. Hopkins

Name: P.K. Hopkins
Title: Authorized Signatory

Summary of Terms

Securities	Quest Diagnostics Incorporated common stock (the "Common Stock")
Seller	SB Holdings Capital Inc.
Buyer	Quest Diagnostics Incorporated
Number of Shares	15,377,551 shares
Price per Share	$54.30
Trade Date	January 31, 2011
Settlement Date	February 4, 2011

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Surya N. Mohapatra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quest Diagnostics Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 9, 2011

By /s/ Surya N. Mohapatra

Surya N. Mohapatra, Ph.D.
Chairman of the Board, President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert A. Hagemann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quest Diagnostics Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 9, 2011

By /s/ Robert A. Hagemann

Robert A. Hagemann
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, the undersigned certifies that, to the best of my knowledge, the Quarterly Report on Form 10-Q for the period ended March 31, 2011 of Quest Diagnostics Incorporated, as being filed with the Securities and Exchange Commission concurrently herewith, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. § 78m or 78o(d)) and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Quest Diagnostics Incorporated.

Dated: May 9, 2011

/s/ Surya N. Mohapatra

Surya N. Mohapatra, Ph.D.
Chairman of the Board, President and
Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, the undersigned certifies that, to the best of my knowledge, the Quarterly Report on Form 10-Q for the period ended March 31, 2011 of Quest Diagnostics Incorporated, as being filed with the Securities and Exchange Commission concurrently herewith, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. § 78m or 78o(d)) and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Quest Diagnostics Incorporated.

Dated: May 9, 2011

/s/ Robert A. Hagemann

Robert A. Hagemann
Senior Vice President and
Chief Financial Officer